DOCUMENT RESUME

ED 243 774 SO 015 613

AUTHOR	Dawson, George G.; Prehn, Edward C.
TITLE	Teaching Economics in American History: A Teacher's Manual for Secondary Schools. Second Edition. JCEE Checklist No. 334.
INSTITUTION	Joint Council on Economic Education, New York, N.Y.
PUB DATE	84
NOTE	133p.; For earlier edition, see ED 079 206.
AVAILABLE FROM	Joint Council on Economic Education, 1212 Avenue of the Americas, New York, NY 10036 ($7.50, 1-9 copies; $6.00, 10 or more).
PUB TYPE	Guides - Classroom Use - Guides (For Teachers) (052)
EDRS PRICE	MF01 Plus Postage. PC Not Available from EDRS.
DESCRIPTORS	Civil War (United States); Colonial History (United States); Constitutional History; Economic Development; *Economics Education; History Instruction; *Interdisciplinary Approach; Learning Activities; Resource Materials; Revolutionary War (United States); Secondary Education; *United States History
IDENTIFIERS	Depression (Economic 1929); Jacksonian Era; World War I; World War II

ABSTRACT

The primary purpose of this book is to point out events reported in the typical U.S. history course that can be enriched by a consideration of relevant economic topics. The book is organized chronologically by 21 topics: explorers and the early American colonies; the American Revolution; the Confederation period and the Constitutional Convention; establishing a new government; growth of the U.S. economy; the Jacksonian era; the Civil War; industrialization; protest movements; business concentration; reforms of Theodore Roosevelt; Wilson and the new freedom; World War I; the 1920's and the depression of the 1930's; the New Deal; World War II; postwar recovery and development; the rise of new nations; competing economic systems; and domestic problems today. Each topic is introduced with a brief account of the events that had important economic aspects. Discussion questions, varying in difficulty, follow the introduction. Finally, a wide range of activities is described for each topic. The book concludes with a 3-page bibliography of general works on basic economics and American economic history, economic textbooks, reference works, and books on methods of teaching economics or history. (RM)

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Teaching Economics in American History

GEORGE G. DAWSON
EDWARD C. PREHN

SO 015 613

A TEACHER'S MANUAL FOR SECONDARY SCHOOLS

Second Edition

JCEE Checklist No. 334

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The Publications Committee of the Joint Council on Economic Education was not asked to review this second edition of *Teaching Economics in American History* because the revisions and updatings it contains, although considerable, do not alter the substantive content of the first edition. The committee reviewed the first edition.

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Contents

TOPIC		
	Preface	v
	HOW TO USE THIS BOOK	**1**
	Format of the Topics	1
	Some Notes on Methodology	2
	Guidelines for Inquiry-Discussion Lessons	4
1	**THE EXPLORERS AND THE EARLY AMERICAN COLONIES**	**6**
	Discussion Questions	7
	Activities	9
2	**THE AMERICAN REVOLUTION**	**12**
	Discussion Questions	13
	Activities	15
3	**THE CONFEDERATION PERIOD AND THE CONSTITUTIONAL CONVENTION**	**18**
	Discussion Questions	19
	Activities	21
4	**ESTABLISHING A NEW GOVERNMENT**	**23**
	Discussion Questions	24
	Activities	25
5	**THE GROWTH OF THE U.S. ECONOMY**	**27**
	Discussion Questions	29
	Activities	30
6	**THE AGE OF JACKSON**	**33**
	Discussion Questions	34
	Activities	36
7	**SECTIONALISM AND THE COMING OF THE CIVIL WAR**	**38**
	Discussion Questions	40
	Activities	41
8	**THE CIVIL WAR**	**43**
	Discussion Questions	45
	Activities	46
9	**THE UNITED STATES BECOMES AN INDUSTRIAL LEADER**	**48**
	Discussion Questions	50
	Activities	51
10	**THE PROTEST MOVEMENTS**	**54**
	Discussion Questions	57
	Activities	59

11	**BUSINESS CONCENTRATION**	**61**
	Discussion Questions	62
	Activities	64
12	**THE REFORMS OF THEODORE ROOSEVELT**	**66**
	Discussion Questions	67
	Activities	69
13	**WILSON AND THE NEW FREEDOM**	**71**
	Discussion Questions	73
	Activities	74
14	**WORLD WAR I**	**76**
	Discussion Questions	78
	Activities	80
15	**THE 1920S AND THE DEPRESSION OF THE 1930S**	**82**
	Discussion Questions	84
	Activities	85
16	**THE NEW DEAL**	**87**
	Discussion Questions	89
	Activities	91
17	**WORLD WAR II**	**93**
	Discussion Questions	94
	Activities	96
18	**POSTWAR RECOVERY AND DEVELOPMENT**	**98**
	Discussion Questions	100
	Activities	102
19	**THE RISE OF NEW NATIONS**	**104**
	Discussion Questions	107
	Activities	108
20	**COMPETING ECONOMIC SYSTEMS**	**110**
	Discussion Questions	112
	Activities	114
21	**DOMESTIC PROBLEMS TODAY**	**116**
	Discussion Questions	120
	Activities	122
	BIBLIOGRAPHY	**125**
	General Works on Basic Economics	125
	General Works on American Economic History	125
	Methods of Teaching Economics or History	126
	Secondary School Economics Textbooks	126
	Reference Works	127

Preface

DURING THE DECADE of the 1970s, Americans began to face up to new realities. As a people we became aware of the possible limits to our natural resources, a seeming diminished world leadership role for the United States, and continuing problems concerning unemployment, energy, inflation, budget deficits, and high interest rates. At the beginning of the 1980s, these problems were still present to one degree or another, and it seemed unlikely that all would go away soon.

Still other changes are in store for the American economy as we approach the twenty-first century, and they may well drastically alter the world of work as we have known it. It is already common knowledge that computerization and robotics and other offspring of the silicon technology that dominates the new electronics age are underway, and that basic industries are declining while the service sectors are growing.

This revision of a work published a decade ago incorporates in the text, discussion questions, and related student activities, the concerns of the early 1980s—including the state of the job market, sluggish productivity, and the changing fortunes of particular industries. It also takes up such matters as population trends, the rights of women and minorities, issues related to energy and to the environment, and space exploration, as well as the persistence of nationwide economic problems including poverty, inflation, interest rates, and increasing budget deficits.

There has been great ferment in the history profession in the last two decades, including an emphasis on social history. We touch throughout on matters that reflect the introduction of new topics such as changes in families and households, the new labor history (which puts new emphasis on the rank and file), the history of native Americans, and quantitative-history methods. Social history is likely to be especially interesting to young people because it deals with problems such as crime and with the everyday activities—the patterns of work and leisure—of ordinary people such as factory workers and farmers. Since the "facts" of social history may prove to be more easily digested at high school ages, students should also be able to grasp the related concepts and generalizations of both economics and history more easily.

After the first edition of *Teaching Economics in American History* was published in 1973, the *Master Curriculum Guide in Economics for the Nation's Schools* (MCG) came into general use. The guide consists of a volume on basic concepts in economics and a number of volumes for use in teaching specific grade levels or courses. They are all published by the Joint Council on Economic Education. The MCG provides standard guidelines with which school systems can more easily integrate economics into their courses of study. One of the guides designed for use in secondary schools is *United States History (Secondary)* by James B. O'Neill (1980, 115 pp). It contains an overview and rationale for teachers as well as lessons that show how economics can provide an analytic framework for courses in American history. Most of the economic concepts emphasized are treated in leading textbooks on American history for secondary schools, and the lessons are especially designed to enhance student understanding of these concepts. The lessons in *United States History* cover different historical periods in order to illustrate a possible developmental sequence.

How to Use This Book

This book is designed to help teachers incorporate economic facts, concepts, principles, and problems into the high school American history course. It is important to realize that injecting economics into a course does *not* require one to take something else out. Indeed, economics will enrich and enliven the history course and enable the teacher to relate historical events to current issues in a meaningful fashion. Thus, Hamilton's financial programs, Jackson's "war" on the Second United States Bank, Bryan's Silver Campaign, and the like will no longer be treated in a purely descriptive fashion but will be used to shed light on current problems of money and banking, controversies over economic growth and the federal government's involvement in the economy, and so on. Conversely, a knowledge of basic economic principles will give greater meaning to the historical events stressed in every high school textbook. An understanding of the nature and function of money, the role of central banks, concepts underlying economic growth, and the causes and effects of inflation (or deflation) will reveal the significance of the events cited above.

This book is not intended to serve as a proxy for a text in American economic history, nor can it substitute for a thorough text in principles of economics. Although it does include some important facts about our economic development and contains some brief discussions of basic economic concepts, its primary purpose is simply to point out – to a greater extent than the average high school American history text – those events found in the typical U.S. history course that can be enriched by a consideration of relevant economic topics.

Ideally, the teacher should have on hand at least one good textbook in American economic history and a standard basic text in principles of economics. These will provide more detailed accounts of the events and concepts mentioned in this manual. For the teacher who does not have a principles text at hand, we recommend the use of the JCEE's *Framework for Teaching Economics: Basic Concepts* (Part I of the *Master Curriculum Guide in Economics*).[1] The *Framework* is a concise statement of the basic concepts and generalizations for teaching economics. It summarizes the structure and substance of economics as understood by the majority of economists and economic educators.

Our economic history is exceptionally colorful, and a wealth of fascinating material can be found to spark student interest. Because of limitations of space, in this book we have not been able even to touch upon many of the most interesting events and people whose exploits enliven the pages of history. The teacher who takes the time to delve into American economic history will be rewarded with accounts of the attempt in 1869 by Jim Fisk and Jay Gould to corner gold, of the Erie Railroad scandals, of "wildcat" banking, of great labor struggles, and countless other occurrences that had economic implications. If time permits, one can obtain much from biographies of outstanding labor leaders, entrepreneurs, and inventors. In short, this book is nothing more than an outline – one must look further for important details.

FORMAT OF THE TOPICS

We have divided American history into twenty-one topics and have presented them, for the most part, in chronological order. This should make it easy to use this manual in conjunction with the typical high school history textbook.[2] We introduce each topic with a brief account of the events of the period that had important economic aspects. Key economic terms are presented in **boldface** type, and short definitions or explanations of these terms are given in most cases. Because some of the terms require more extensive discussion than would be possible in this small book, the teacher who is unfamiliar with the term is expected to use a standard economics textbook to acquire the necessary understanding. (This is the case, for example, with the laws of absolute and comparative advantage in Topic 2.)

Of course, in almost every topic we could have included an even greater number of economic concepts. Furthermore, the placement of the concepts is somewhat arbitrary. The topic of monetary instability, for example, is one which pervades all of our history and thus we

1. New York: Joint Council on Economic Education. First edition, 1977; second edition, 1984.

2. Most textbooks take a chronological approach, although a few recent ones have used a topical or topical-chronological organization. This manual can be used with either type.

could have included inflation and/or deflation in many topics. We made our choices on the basis of the placement that seemed to provide the best opportunities for relating economic principles to historical events in an interesting and meaningful way. Often, the same economic concept will appear in several topics. Principles underlying trade, for instance, can be introduced at the very beginning and then repeated with increasing degrees of complexity throughout the course. In this way, the students will reinforce earlier learning, proceed from the simple to the complex, and see how a basic analytical tool can be applied in a variety of situations.

Discussion questions follow the brief introduction to each topic. They vary in difficulty in order for teachers to have a selection from which to choose those best suited for their own classes. The teacher should feel free to use the questions in a different order, to revise their wordings, omit some, and add others. Some questions are "fact oriented," but the facts elicited will invariably lead to an analysis of how or why the matter arose or turned out as it did. Many questions deal with content found in most high school history texts and thus with material familiar to the teacher. The economic concepts, facts, problems, or principles relating to some of the questions may not be self-evident from the wording. Therefore, the relevant concepts appear in **boldface** type wherever we thought straightforward identification would be helpful.

Finally, we offer a number of suggested activities for each topic. In this publication, questions serve as springboards from which students can plunge into a wide variety of investigative, inquiry, and discovery activities. Since we are aware that students learn not only by reading but by observing, listening, reflecting, analyzing, and discussing their ideas with others, our suggestions include interviews, role-playing, films, filmstrips, talks, field trips, community resources, and visits to local museums and other places of historic interest. A course in U.S. history should also make use of cartoons, simulations, games, folk songs, the popular arts, literature, and the like. We expect, in addition, that teachers will use newsmagazines, newspapers, the tape recorder, television, the overhead projector (with homemade or commercially prepared transparencies), and videotape, if available, to examine current economic history and to facilitate the learning of concepts. Many contemporary American history texts have lists of novels that can be used to prove or illustrate a point. We suggest some ways in which novels and other books can be used by classes or by individuals.

Naturally, the teacher will select those activities that are best for a particular class and that, in the teacher's judgment, can best serve to achieve the aims of a given lesson or unit. No teacher of U.S. history can use more than a portion of the suggestions we proffer.

SOME NOTES ON METHODOLOGY

Teachers today know that they must plan their lessons so as to involve each pupil as directly and personally as possible in the lessons. Therefore, this manual emphasizes inductive teaching associated with developmental-discussion, inquiry-discovery, and problem-solving approaches. It provides related student activities and discussion questions appropriate for various types of lessons: group work, simulations, problem-solving, case studies, panel discussions, independent study, and even an occasional lecture.

A developmental-discussion lesson is one in which the students attempt cooperatively to find solutions to a problem that the class has accepted as worthy of study. The main and subordinate concepts of the topic are developed through a half-dozen stimulating, thought-provoking key questions which serve as the basis for class discussion. Properly constructed, the key questions, when analyzed by the students under the guidance of the teacher, will focus discussion on the essential concepts connected with the problem chosen. The developmental-discussion lesson is "teacher-dominated" in the sense that it is the teacher who determines the aim, content, and materials. It is a method that keeps the discussion relevant to a few fixed targets, forcing the students to distinguish facts from opinion and to use the historical method or the tools of the economist as appropriate.

Both the inquiry-discovery and the developmental-discussion lessons are designed to develop concepts by student answers to challenging questions put by the teacher; both emphasize cooperative problem-solving by the students. Yet the inquiry lesson differs from the developmental lesson in several respects:

- The inquiry lesson is open-ended; the developmental lesson is planned in a logical, sequential fashion to arrive at a specific, predetermined conclusion – the teacher's conclusion.
- The content outline of an inquiry lesson tends to be less detailed, and places less emphasis on the logical development of content.
- Inquiry questions are of necessity also open-ended. The anticipated responses are too varied and diverse to be indicated in the content section of the daily lesson plan. The pivotal questions of a developmental lesson have specific anticipated answers.
- Inquiry lessons may extend over several days. A

developmental lesson is designed to be completed in a single period.

- Inquiry lessons tend to have wider aims. For example, an inquiry lesson on the Great Depression is a "power lesson" that seeks to discover the general causes and cures of business slowdowns in a free market economy. A developmental lesson on the same subject usually stresses the causes of and the attempts to cure the depressed conditions of 1929–39.
- Inquiry lessons usually make use of primary source materials; developmental lessons are commonly based on secondary sources.
- In inquiry-oriented classes the questions asked and the procedures followed often are (and ought to be) more important than the answers given. Developmental and expository lessons stress the logical answer.

In essence, inquiry is a self-motivating method of learning. Students nowadays are interested in real problems of immediate concern to themselves and to society—problems such as poverty, racism, pollution, and drug addiction. In relating economics to American history, a teacher can bring the past nearer by using a yesterday-today approach. By interweaving then and now, the environmental battles of today can be compared with those in Theodore Roosevelt's time. Similarly, just as Upton Sinclair's book, *The Jungle*, aroused public opinion and led to the passage of the Meat Inspection Act of 1906, so Rachel Carson's *Silent Spring* sparked the present-day campaign against harmful pesticides.

Thoroughgoing inquiry is almost bound to be interdisciplinary. For example, some of the problems of particular concern today—sexism, racism, crime, and drug abuse—are often thought of as predominantly social problems, but they also have important economic aspects. In *Inquiry in the Social Studies Classroom: A Strategy for Teaching*, Barry K. Beyer writes: "Inquiry teaching is creating and conducting learning experiences which require students to go through the same processes and to develop or employ the same knowledge and attitudes they would use if they were engaged in independent rational inquiry."[3]

Obviously, inquiry teaching places considerable responsibility on the teacher. Students must first be encouraged to sense and select significant historical problems of an economic nature and then be guided to engage in a persistent, organized and serious search for satisfactory answers to these problems. In the process, the teacher must help students to clarify and test the ideas that they raise about the problem they have tackled and assist them in making rational decisions on the basis of their personal values and the data on hand. Occasionally the teacher must prod students with challenging questions. This kind of help is especially important if students have grown accustomed to being told all the answers. Above all else, the teacher must encourage students to set a goal for their inquiries.

Five possible goals, or aims, come readily to mind:

1. *Searching for a solution to a problem.* Can voluntary price and wage controls in peacetime check inflation?
2. *Answering a question.* Why has a military-industrial complex emerged in the United States since World War II?
3. *Satisfying curiosity.* Why are presidents of the United States frequently in conflict with the Congress?
4. *Resolving a value conflict.* Is it right for the United States to reduce economic aid to developing nations?
5. *Validating a generalization.* The consumer has been the "forgotten man" chiefly because the consumer wasn't adequately represented in Washington prior to the advent of Ralph Nader.

In the past, history teachers used expository and developmental lessons to guide their students to logical and largely predetermined conclusions in terms of the factual and conceptual data the teachers presented during the lesson. (In many cases, of course, the teacher's conclusions were both logical and valid.) In genuine inquiry, however, most answers cannot be predetermined. The goal of a teacher who uses inquiry teaching techniques is not to lead students to conclusions predetermined by the teacher. For this reason many of the questions we pose in this booklet are open-ended. They are so phrased that students must reach their own conclusions on the basis of information at their disposal. This does not mean, however, that inquiry-discussion techniques are designed to encourage aimless argument and purposeless "bull sessions." Nor should teachers think of inquiry as an applied follow-up to a two-week unit that the class has just completed. That would constitute a misapplication of this teaching technique.

In a specific social science like economics, genuine inquiry involves the pursuit of knowledge using the tools and methods of social scientists in order to arrive at verifiable conclusions. While this is the ideal, there are very real practical limitations to the achievement of this worthy goal at the secondary school level. In this regard, critics ask some searching questions. Can high school students master the tools of the economist and the historian in the limited time available? Can high school students reach valid or verifiable conclusions on the basis of the meager data they often get? Inquiry in-

3. Columbus, Ohio: Merrill Publishing Company, 1971, p. 53.

volves access to a wide range of printed materials and other sources and it assumes that the student can understand them. Can students handle sophisticated statistics and complex economic arguments? Are their teachers able to give them the guidance they may require? The answers are, of course, obvious. What we as teachers should tell ourselves and our students is that they are engaging in inquiry and discovery *exercises* in which they attempt to use the analytical tools taught by teachers and textbooks. Such exercises enable students to acquire the flavor of research, experience in the use of the tools of the economist and the historian, and a taste of the excitement that scholars who are at the cutting edge of a discipline experience.

Because students grow tired of the exclusive use of only one method, the astute teacher will provide a balanced diet – narration, description, explanation, memorization, and the acquisition of factual knowledge. Nevertheless, inquiry should be used as often as possible. Think of inquiry as *one* of the ways to involve students more directly, to stimulate their critical thinking, to revitalize the past for them, to bring the real world of the present into the classroom and to speculate about the future.

Inquiry and discussion are inseparable. Inquiry encourages students to satisfy their curiosity and to learn on their own through problem-solving. Discussion enables them to clarify their views and to test their hunches through dialogue with their classmates and their teacher. Since the students are discussing controversial issues, the teacher must make sure that all sides of the controversy are fairly represented. One must also make it plain to the class that the emphasis of inquiry-discussion is on truth and not on winning the argument. The reward for both pupils and teacher will be a lively, purposeful learning experience. With students independently in hot pursuit of truth, teachers can at last serve in the roles they enjoy most – resource person, guide, mentor and, occasionally, "devil's advocate."

A purposeful interchange of ideas does not, of course, occur automatically. The teacher must first establish a democratic social climate in the classroom, which is characterized by worthwhile activity, individual initiative, and freedom of expression. Such an atmosphere is absolutely essential in an inquiry-oriented classroom because students must be constantly challenged to prove their arguments and to defend their theses. They must also work together in friendly fashion, accept their fair share of responsibility, and look upon their teacher, by virtue of maturity and preparation, as the group leader. Only in a democratic classroom will the very act of airing opinions through honest discussion relieve tensions and reinforce social skills such as tact, courtesy and the willingness to accept constructive criticism. Moreover, purposeful discussion builds respect for scholarship by requiring analysis, the citation of sources, accurate facts, and pertinent quotations.

GUIDELINES FOR INQUIRY-DISCUSSION LESSONS

Worthwhile lessons are rarely the result of spontaneous generation; they are the outcome of careful planning. An inquiry-discussion lesson is no exception to this rule. To help the teacher achieve lively, purposeful inquiry-discussion, we present four major guidelines:

1. Create the Right Atmosphere

The first step in achieving effective inquiry-discussion is to establish objective standards for judging the rationality of the arguments and the validity of the positions taken by the students. It is best to arrive at such standards cooperatively through pupil-teacher planning, for then the rules are based on the consent of the governed. Further, students must accept the fact that all opinions are not equally valid. Some are plainly wrong or untenable. Some violate the spirit of a democratic society, our constitutional freedoms, our common humanity, or our traditions. In addition, the class must be prepared to assume a questioning attitude toward sources of information and the interpretation of "the facts" (including the value judgments involved), as classmates present arguments. The students must understand clearly that inquiry-discussion is designed chiefly as an opportunity to develop and clarify their own views. In fact, the teacher as the group leader should point out from time to time that changing one's mind in the light of new evidence and valid reasoning denotes maturity, and is not a sign of weakness of resolve or inferiority.

2. Prepare the Class for Productive Discussion

The first step in stimulating productive discussion is to choose a suitable problem. A picture, quotation, cartoon, or newspaper clipping will often arouse interest in the topic. Usually, a historic controversy can be revitalized by a "then-now" approach. Thus the encounters of the modern-day women's movement can be compared with the suffragist battles, a current strike with a "classic" example of the past such as the Pullman strike, and the activities of "Nader's raiders" with the exposés of the muckrakers of Theodore Roosevelt's day.

The second step is to brief the class on background information that pertains to the question under discussion. This can be accomplished in three ways: (1) by as-

signing relevant reading or by reviewing pertinent information, (2) by showing a picture, cartoon, film, or filmstrip that depicts the highlights of the issue under review, and (3) by distributing material or projecting a transparency of it.

3. Guide the Discussion

The teacher as group leader must take an active part in guiding the discussion toward educationally worthwhile ends. A successful discussion can be achieved by doing the following:

First, the teacher should orient and motivate the discussion by focusing on a specific, concrete aspect of a topic, issue, or dilemma with which the students can feel involved. The classroom setting is important. Often the very arrangement of the seats and table will help to create the proper psychological and physical climate for inquiry-discussion.

Second, the teacher must state the problem concisely and set the boundaries by analyzing the nature of the conflict. An astute teacher will arrive at these matters through class consensus, knowing that only if this has been done first can one direct attention to the underlying economic principles, values, concepts, and theories involved in the problem in the inquiry-discussion session that follows. Moreover, in formulating the aim of the discussion as a problem in the form of a question, the students will gain valuable experience in such critical matters as how to judge, how to ask questions, how to seek information, how to analyze, how to evaluate.

Third, the teacher must be especially active and alert during the elaboration of the arguments. This phase of inquiry-discussion involves the use of facts, quotations, and sources, and the interaction of the class. It constitutes the very heart of the discussion. Here the teacher should place emphasis on points of agreement as well as difference. Here the students will see once again that not every issue has a single correct answer.

The knowledgeable teacher will encourage students to introduce historical analogies. For example, the rights of neutrals were involved in all three world conflicts in which the United States became embroiled, beginning with the Napoleonic wars. Analogies can be compared and contrasted. Students should be urged to look for unifying economic principles that can be derived or illustrated by analogy.

In the course of the discussion, the teacher may occasionally engage a single student in Socratic dialogue in order to expose inconsistencies, myths, and stereotypes. Otherwise all members of the class should participate in the discussion; no small group of glib or articulate students should be permitted to dominate. The same goes for "prima donnas" of either sex. Finally, we are old-fashioned enough to believe that in order to be effective every lesson (even a discussion) should end with a summary.

At its conclusion, each inquiry-discussion session should also be evaluated. Ideally, even run-of-the-mill inquiry exercises should be followed by some sort of planned action, for example, writing a letter to an editor or adopting a resolution that states the consensus of the class.

4. Choose an Appropriate Discussion Technique

We have already pointed out that many of our discussion questions and activities for investigation, inquiry, and discovery for the twenty-one topics that follow can serve as springboards or motivations for inquiry-discussion. Some of the best class discussion is informal—led by the teacher or by a student who has made special preparation for the session. Such discussion flourishes in enthusiastic committees and in "buzz sessions" (in which the class is divided into groups of six or fewer). Small-group discussion should, of course, be summarized for the benefit of the entire class by a member of each committee or group in the closing portion of the class period.

"Structured" discussion—panels, roundtables, forums, and town meetings—should always be followed by open class discussion of the topic at issue and by class evaluation of the presentation in terms of criteria previously agreed upon. Panels, forums, and the like are more successful if the participants volunteer and if rigorous preparation precedes the actual presentation.

Inquiry-discussion can be a waste of time if it is dominated by a handful of smooth talking, opinionated, misinformed, irrational "windbags." It can truly be a "seedbed of thought" if it is properly motivated, structured, prepared, and pointed toward finding solutions to genuine problems. By adhering to the four guidelines mentioned above, teachers can help avoid the perils and reap the advantages of inquiry-discussion.

Topic 1

The Explorers and the Early American Colonies

Economic Facts, Concepts, Principles, or Problems

- Economic motivation of voyages
- Economics, goods, services, wealth
- Profit motive
- Importance of labor, specialization, and productivity

Most teachers of American history start their courses with a unit on the explorers and the early American colonies. This period of history presents opportunities to include a number of important economic facts and concepts. It should be realized that by including economics in a history unit one does *not* sacrifice other content. On the contrary, the relevant economic concepts will greatly enrich the unit and will help the teacher to relate history to the present. Because many (if not most) students fail to see the value of history, it is incumbent upon the teacher to show them that a knowledge of history is important because it helps us to understand current problems and issues. For example, we are better able to understand the demands made by women, by black people, and by other minority groups if we know something about the history of the treatment of women and minority groups in the United States. One can better understand our governmental system if one knows how and why the federal system developed.

Comparisons can be made between the explorers in early American history and space exploration today. A basic economic problem is that productive resources are scarce relative to the demand for the goods and services those resources can produce. The governments that are sending people to the moon or exploring space today are using resources that could be employed in the production of something else—that is, the **opportunity cost** of space exploration is the next best preferred use of the goods and services being sacrificed. It is hoped, of course, that there will be payoffs. Already we are reaping many benefits from the space program—communications satellites, better weather forecasting, and even improvements in medical technology, to name a few. The rulers of old who sent explorers to the New World likewise expected a return on their **investment.** In short, there were economic motivations behind the voyages of discovery. Students should know and understand these economic factors.

Economics can be defined as the study of those principles that relate to the allocation of scarce resources among competing goals, or the study of how people satisfy their wants for goods and services. It deals with the manner in which goods and services are produced, distributed, and consumed. This definition (along with definitions of the terms goods, services, scarcity, resources, allocation, production, distribution, and consumption) should be presented to the class early in the course. Students' own experiences can provide illustrations. For example, the teacher might ask the students to list things they would like to have or do. The student who would like to have an automobile and would also like to spend the summer in Europe, but who cannot afford both, must decide between them. If the student chooses the car, the opportunity cost to the student is the trip to Europe that is forgone. It can also be shown that the capital, labor, and material used in producing the automobile could have been used for the production of some other item. The opportunity cost of the car, then, is the next best array of goods and services that could have been produced with those same resources.

The rulers of Spain and Portugal who agreed to finance explorations certainly had economics in mind. These nations had been buying the products of Arabia, India, and China. (It was realized long ago that trade can increase the **level of living** by providing a greater variety of goods.) The journeys were difficult and costly, however, and the rulers of Spain and Portugal were seeking safer and cheaper means of reaching the East. They expected that the benefits to be derived from learning about new routes would eventually exceed the costs of exploration—although the term **benefit-cost analysis** had not yet been invented.

The discovery that gold and silver existed in abundance in parts of the New World induced further expedi-

tions. After mentioning this lust for precious metals, the class's attention should be shifted to an explanation of the nature of wealth. In economics, **wealth** is not an accumulation of valuable objects or goods per se, but is any useful asset – land, and other natural resources, machinery, buildings, means of transportation, and the like, that can be used to produce and supply other things which are in demand. In other words, wealth consists of whatever has the capacity to satisfy wants for goods and services. Perhaps Spain made some temporary gains through finding immense amounts of gold and silver. In the long run, however, the furs, timber, fish, iron ore, and good farm land discovered by other nations turned out to be much more advantageous. Students should understand, then, that there is a difference between wealth that is used productively and wealth that is hoarded. For example, note the pathetic attempt of the first Jamestown settlers (1607) to find gold at the expense of efforts to create means of producing goods of practical value. (All but 38 of those first 104 settlers died within a year.) Upon taking control of the Jamestown colony, Captain John Smith stated an important economic maxim – "Nothing is to be expected thence but by labor."

There were other economic lessons in the Jamestown experience. Under Smith's direction, the settlers built houses, dug a well, "digged and planted" the ground, cultivated corn, and raised "pigs and chickings." The colonists began to manufacture a variety of products, including tar, pitch, soap, glass, and fish nets. It appeared, however, that they were attempting to do too much with their existing productive resources. John Rolfe had the answer – **specialization.** First, Rolfe noted that smokers in England preferred the "Spanish" tobacco grown in Trinidad to the Indian tobacco of Virginia. The greater demand for the Spanish tobacco resulted in higher prices for that type. A piece of land was set aside for Rolfe's experiment, and it was found that the Spanish type grew better than the native Indian tobacco. When samples were sent to London, experts declared the former to be superior and offered a high price for it. Here we have a good illustration of how **consumer demand** can help direct production. Virginia's productive resources were quickly shifted to the production of Spanish, as guided by the "money votes" of the London consumers. By specializing, the Jamestown colonists became more efficient producers and the colony began to prosper. (Of course, there are opposite cases where nations or areas need to depart from one-crop or one-product specialization and diversify their economies.)

At this point, you can introduce the **profit system.** It was the prospect of profit that led the colonists to concentrate on tobacco production. Profits should be defined here as the amount of a firm's revenue that remains after all factors of production have been fully compensated. (Consult a standard textbook on the principles of economics for a more detailed discussion of how profits are computed and be sure to distinguish between the economist's definition of profit and that of an accountant. For example, in computing total costs the economist will include **implicit costs,** such as the rental value of land that the proprietor of a business may own personally and uses in the production process.) The **profit motive** was a factor in the founding of the early English colonies, and in the profit-seeking activities of the Plymouth Company and the London Company.

Although the London Company lost money, there are valuable lessons in the economic activities of the Plymouth Company settlers. They wasted no time searching for gold, but realized from the start that survival and progress depend upon work and production. The importance of **productivity** can be shown here. Discussing the efforts of the Pilgrims to increase their productivity leads to some interesting findings. Why did communal planting fail, for example? Why did they obtain better results when people owned and cultivated their own fields? (Similar results are obtained in the Soviet Union, where the output per hour of labor is vastly greater on privately owned and cultivated plots than on communal property.) The early American colonies also found that the work of indentured servants was not as efficient as that of free labor. **Incentive,** then, is an important factor.

DISCUSSION QUESTIONS

Economic concepts, ideas, etc., that might be brought up in answering the questions are printed in **heavy type** (boldface).

1. The explorers of the Space Age are often compared with the explorers of the New World.

   (a) What are some economic reasons for taking the risks of exploration?
   Profit motive; returns on investment; human wants are unlimited but productive resources are not.

   (b) How were the explorers of old like today's space explorers? How did they differ?

   (c) Discuss important changes in technology and capital accumulation that were needed before exploration was possible either in the past or in recent times.

(d) How has the technology of the Space Age affected your life?
Importance of technological developments and of accumulating capital to support innovation and exploration. How technological developments related to space exploration affect us all.

2. Explain the effects of exploration, discovery, and colonization on:

(a) the way of life of American Indians;

(b) the Italian cities;

(c) the Atlantic powers of the sixteenth and seventeenth centuries (Spain, Portugal, England, France, and the Netherlands).
Benefits derived from the discovery of new resources and from trade.

3. One magnet drawing English colonists to America was the existence of cheap land. How might you have satisfied your craving for land if you had been:

(a) a wealthy noble or merchant;

(b) an indentured servant with the indenture completed;

(c) a member of a New England church congregation settling in a new area.
Economic motives for migration. Importance of land as a productive resource.

4. Captain John Smith said that in Jamestown "nothing is to be expected . . . but by labor."

(a) Is the above statement true today?
Importance of labor in production.

(b) What is division of labor?
Refers to both
(1) Workers engaged on only a single or very few steps of a major task,
(2) Workers employed in an occupation that calls for many skills, e.g., farmer, doctor, engineer.

(c) How does division of labor increase production?
In two ways:
(1) By simplifying tasks, or
(2) By concentrating on complex work that requires much training.

5. The mother countries and the colonies specialized in producing different products.

(a) What was the reason for their specializing, for example, why did the colonists of Jamestown specialize in raising high-grade Virginia tobacco?

(b) What was the colonists' economic advantage in growing tobacco instead of trying to produce everything for their needs?
Efficiency in allocation of productive resources.

(c) How was the price of tobacco determined in the London market?
Demand and supply.

(d) Why is it sometimes unwise to specialize in only one or two products?
Relying on a few products can be devastating if the market for an important product collapses.

6. Explain how subsistence farming differs from farming for the market.

7. Discuss the extent to which each of the following was important in developing market farming in the South in the colonial period: (a) geography; (b) availability of free land; (c) availability of money; (d) demand for staples (tobacco, rice, cotton).
Importance of market demand in guiding output and the allocation of resources. Profit motive. Factors essential for production.

8. According to mercantilist theory, gold and silver are the most important forms of wealth and the amount of precious metal possessed by a nation is the major measure of its wealth.

(a) How does the modern economist define "wealth"?
Anything that can be used to satisfy wants for goods and services.

(b) Why was owning a big tobacco crop considered "wealth" in Jamestown?
Partly because it could be wealth in the mercantilist sense; partly because it could be used to acquire economic wealth, e.g. more land, houses, farm implements, horses, and wagons, etc.

(c) Why are stocks and bonds wealth?
Distinguish between real wealth, which has the capacity to satisfy wants for goods and services, and money wealth.

9. Explain how the economy of Western Europe was affected by the gold and silver brought by Spain from the New World in the sixteenth century.
When the supplies of goods and services do not increase nearly as much as do increases in the money supply, inflation – a rise in the level of average prices – results.

10. Explain why the Indians who inhabited North America existed at a low level of living compared with the poorest Americans today, and why many Indians today still have low levels of living.
Importance of technology and "know-how"; cultural differences.

11. In colonial times:

(a) How did the methods of earning a living differ in New England, the middle colonies, and the South?
Land as a productive resource; specialization.

(b) What did the planter, the farmer, the merchant, and the artisan have in common?

(c) What divided them as independence approached?

(d) Did they share attitudes on colonial government? taxation? trade with Great Britain? Explain your answer.
Economic self-interest and political allegiance.

12. Conditions in Western Europe in the sixteenth and seventeenth centuries were favorable for colonization in the New World. If you lived at that time:

(a) Why would you have been willing to leave your native land to begin life anew in a strange, distant, and dangerous place?
Relationship between scarce supply of resources and growing human wants; growth limitations of preindustrial technology.

(b) In which of the early Spanish or English colonies would you have wanted to settle? Why?
Economic motives for migration.

13. How did the early colonizing and trading companies resemble modern corporations?
Minimizing risk by pooling resources.

14. What do economists mean by productivity?
Productivity is the amount of goods and services produced by one unit of productive resources during a specified period of time.

(a) What did the Pilgrims do to increase their productivity?
Specialization.

(b) How can you, as a student, increase your own productivity?

15. What is meant by "incentive"? Why is incentive considered important in economics?

(a) Why did indentured servants, on the whole, have greater incentives than black slaves?
Private ownership and personal gain as economic incentives.

(b) What is generally considered the most powerful incentive in a free market economy? Why?
The profit motive.

(c) How do profits help to guide and direct economic activity?

(d) To what extent does the profit motive exist in communist countries?

16. Why did communal planting fail in Jamestown?
Individual vs. collective enterprise.

(a) Why do Russian peasants exert more "tender, loving care" on their own garden plots than on the collective farm as a whole?
Private property and individual gain as economic incentives.

(b) Would you be willing to join a farming commune in the United States? Why? Why not?

(c) Why do some people remain in business (for example, small candy stores) when they barely make a living?
Noneconomic motives, such as desire to be one's own boss; prestige of being owner of a business; enjoying one's work; inertia; lack of knowledge or skills for improving the business or obtaining better-paid employment.

ACTIVITIES

1. **Individual research topics:**

(a) To what extent was the European manorial system introduced in colonies such as New York, Pennsylvania, and Maryland?
(b) How did the passage of the Elizabethan Poor Laws affect colonization in America?
(c) Were the Navigation Acts and Acts of Trade a benefit or a burden to the American colonies? Explain your answer.
(d) Which items in the list of 27 grievances in the Declaration of Independence were economic in character? Explain these.

2. **"Ads" for settlers:** Ask the students to prepare handbills or newspaper "ads" to attract settlers by describing the advantages of living in the New World.

3. **Local history:** Have the students consult local or state histories to learn about and report on vocations, trades, and industries in the area during colonial times.

4. **Role-playing:** Stage a sociodrama in class to evaluate British mercantile policy. The "cast" might include a colonial merchant, a ship owner, a housewife, a British customs official, and a farmer (who must buy only British products).

5. **Time line:** Have the class construct a time line depicting "the important economic events leading up to the American Revolution" perhaps in the form of a horizontal "mural," consisting of pictures drawn by a committee of students on a long strip of paper.

6. **Diary:** Ask the students as a special assignment to write entries for ten days in the life of a frontier settler, a colonial farmer, or a merchant.

7. **Cartoons:** Have the students draw cartoons reflecting the economic concerns of the colonists: tax collection, the need for capital, the dangers and hardships of pioneer farming.

8. **Town meeting:** Have the class imagine itself as a town meeting in New England discussing a question of current economic interest: the care of the poor, or the imposition of taxes to build a new elementary school or a bridge over a stream.

9. **Group reports:** Ask committees of students to investigate the following topics:

   The "Bread Colonies"
   Why New Englanders turned to the sea
   The triangular trade in fish, rum, and slaves
   The labor system in New England
   From indentured servant to slave in the South

   After the committee members have discussed their topic among themselves, let them report their findings to the class as a whole organized as a Seminar on Colonial Economic Life.

10. **Reports on visits:** Ask a student who has visited Colonial Williamsburg, Sturbridge, or other places of historical interest to report on vocations and trades during colonial times. Brochures, snapshots, and booklets can be used to illustrate the talks.

11. **Sociodrama:** Let the members of the class imagine that they are adventurous Europeans living during the 17th and 18th centuries. Select teams of students to study the economic resources of the various colonies by consulting reference works and their textbooks. Then have them start a promotion campaign to convince their neighbors to embark for the New World. Each team might consist of a captain of a sailing vessel, a ruler or proprietor, a representative of a trading company.

12. **Panel discussion:** How economic forces shaped the lives and the economy of the New England, the Middle and the Southern Colonies.

13. **Picture display of the colonial period:** Using an opaque projector, have the students project paintings and photographs reproduced in *American Heritage Magazine* (and its special topical volumes) to illustrate economic activities in the New England, Middle and Southern Colonies during colonial times.

14. **Use of local museum resources:** Take the class on a visit to the local museum of the local historical society to view exhibits of the colonial period—looms, spinning wheels, agricultural implements, household articles, etc.

15. **Glossary:** Encourage each student to keep a card file on new economic terms with their definitions. Keep the cards in alphabetical order for ready reference.

16. **Dramatization:** Have a committee of students write a skit telling why the early settlers decided to follow John Rolfe's suggestion that they specialize in tobacco growing, using seeds of the "Spanish variety."

17. **Map skills:** Prepare mimeographed outline maps of the Eastern seaboard and the West Indies showing the trade routes between the American colonies and the products traded.

18. **Writing a charter:** Have the students draw up an imaginary royal charter for a company like the Plymouth or London Company which expect to settle colonists in America. Include such items as the purpose of the company; the rights of the stockholders; and the privileges, obligations and responsibilities of the colonists. On the basis of the charter, discuss possible conflicts of interest that might arise.

19. **Charting:** Have the students summarize in chart form the advantages and disadvantages of the Navigation Acts and Acts of Trade for (a) the mother country (b) the colonies.

20. **Personal letter:** Have students, in the role of colonists, write personal letters to friends in London complaining about British restrictions on colonial trade and suggesting remedies for the situation.

21. **Oral reports:** Assign the following topics to interested students, who should prepare themselves to give brief reports to the class when the assigned topic comes up in the course of the unit on the colonial period.

   Land and water transportation in the colonial period
   The joint stock company, ancestor of today's corporations
   Immigration to the New World in the eighteenth century
   Slavery in the colonies and Europe in the eighteenth century
   Adam Smith's criticism of mercantilism

22. **Filmstrip:** *The Jamestown Settlement* presents a detailed analysis of the founding of the first permanent English settlement in North America and the early struggle of the colony for existence. (Color, cassette, teacher's guide; Multi-Media Productions)

23. **Game:** "Market." The purpose of this game is to demonstrate how price is established through changing demand and supply conditions. (Teams of six, up to thirty participants; Didactic Systems, Inc.)

24. **Recording:** Play *Songs of the Colonies*—ballads and folksongs sung by Burl Ives—to set the mood for the discussion of the lives and problems faced by the colonists. (Encyclopedia Films)

25. **Models and drawings:** Talented students may be interested in making models or drawings, and in some instances, dioramas, of pioneer cabins, plantation homes, forts, stage coaches, tools, and articles of furniture and clothing of the colonial period.

26. **Filmstrip:** Show *Profits: Fuel of the Economy* to illustrate the role of profits in a private enterprise system. (Color, cassette or record; Set III, American Filmstrip Series, McGraw-Hill)

27. **Filmstrip:** *Discovery and Exploration.* Examines the end of feudalism in Europe, the first voyages of discovery, the conquest of Mexico, the exploration of North America, and the revolutionary developments in European science which opened the modern era. (Color; 5 filmstrips with cassette for each, teacher's guide)

28. **Film:** *Woman's Role in Early America.* Provides well-rounded comparison of the role of women in colonial America with their role today. (16 mm., black and white, 30 min.; National Educational Television Film Service)

29. **Reading:** Read to the class Adam Smith's classic description of specialization in a pin factory as a springboard to a discussion of the advantages and disadvantages of division of labor.

30. **Problem for analysis:** "Traditionally, life in the English colonies in America has been viewed as something of a 'golden age' for white women. The relative scarcity of women in the early colonies gave them high legal status, and their vital economic contributions to the household made them almost equal to their husbands. If they wished, they could even find employment outside the home." Now new women's studies have raised serious doubts about the validity of most of these contentions.
    (a) To what extent was an American Iroquois Indian woman of the seventeenth century more independent than a colonial white woman?
    (b) Why did a colonial household need both a master and a mistress to function properly?
    (c) In what ways did the experience of women on the frontier differ from that of men?
    (d) Why has Ann Hutchinson been called a forerunner in the women's rights movement?

Topic 2

The American Revolution

Economic Facts, Concepts, Principles, or Problems

- Free enterprise and free trade versus economic controls and mercantilism
- Taxation
- Supply and demand
- Monopoly
- Free enterprise

THE ECONOMIC CAUSES of the American Revolution are mentioned in nearly all United States history textbooks, but too often these economic issues are treated in a purely factual or descriptive way. The teacher who will take the trouble to deal with the basic economic principles underlying the economic aspects of the American Revolution will not only make the subject more meaningful to the students but will find that this makes it possible to relate the events of the revolutionary period to current issues and problems. Indeed, much of the current unrest throughout the world can be traced to some of the same economic difficulties that fanned the flames of revolt in the American colonies.

The American colonies had enjoyed a considerable amount of economic freedom. (Contrast this with the Spanish colonies, for example, where the death penalty could be imposed for violations of the extremely rigid restrictions on trade.) The advantages of **free trade** and **economic specialization** are well illustrated by the fishing, ship-building, lumber production, and fur trade of the colonists, for these activities enabled the colonists to exchange their output for money or for goods produced elsewhere. The effects of increasing British restrictions on colonial trade and of increasingly effective enforcement of those **mercantilist policies** were deeply felt in the colonial economy.[1] Restrictions on trade have been causes of great concern in recent times as well. Note, for example, the problems the United States has had in regard to its economic relations with the Common Market and Japan. The **tariff** and other devices for impeding trade can be discussed at this point, with the leading arguments for and against trade restrictions being examined and debated. The **principle of absolute advantage** and the **law of comparative advantage** may be used to help analyze these conflicting views. (Among the views to be taken into account are those of professional economists, the AFL-CIO, the textile and steel industries, import-export industries, banks involved in foreign exchange, and others who have an interest in the issue of free trade vs. restrictions. It might be interesting to compare these views with those expressed during the period leading up to the American Revolution.)

Taxes also played a role in bringing matters to a head in the colonies. Here, one might examine the various purposes of taxation and the kinds of taxes that exist. Students should understand that they use many goods and services provided by government (roads, schools, public libraries, police and fire protection, public health facilities, and the like), and that taxes are necessary to pay for these things and to meet the general costs of government. They should understand, however, that taxes can also be used for other purposes. The British tax on foreign goods was designed to discourage the American colonists from purchasing those goods, so that British merchants would face less competition. This, of course, increased the **cost of living** in the colonies.

The effects of different types of taxes can be examined so that students will understand that **excise** and **sales taxes** are generally *regressive*—that is, they tend to take a greater percent of the income of poorer persons than of the richer. For example, let us say that Mr. Adams has a weekly income of $800, while Mr. Brown earns only $300. They both purchase refrigerators costing $400 plus a 5 percent sales tax, or $20. Let us assume that these refrigerators are necessities for both men. Now, the $20 tax represents only 2.5 percent of Mr. Adams's weekly income, but it is 6.7 percent of Mr. Brown's income. Thus, the tax is regressive—it takes a greater percent of the poorer man's income. Other types of taxes are *proportional* (taking the same percent of income) and *progressive* (the higher the income, the higher

1. Mercantilism is the theory that precious metals are the most important form of wealth, and that a country should export more than it imports so that others will have to pay the difference in precious metals. It would be hard to find a modern economist who supports mercantilism in its classical sense. (See the discussion on the meaning of "wealth" in Topic 1.)

the percent paid). There will be many opportunities throughout the U.S. history course to deal with the principles of taxation. The basic principles should be introduced during the study of the background of the Revolution, however. More detailed analysis can be made later, for taxation has been a continuing issue throughout our history.

The colonial **boycott** of British goods presents an opportunity to discuss this technique of applying economic pressure. How effective can a boycott be? In what ways was the colonial boycott similar to more recent boycotts, such as some consumer attempts to bring prices down by boycotting supermarkets, black boycotts of white-owned stores to help bring about racial justice, and American boycotts of goods produced in Communist countries? In examining the effectiveness of boycotts, one can delve into such economic topics as the nature of **demand, economic wants,** and business **profits.** Attempts to boycott such needed items as food are probably less effective than boycotts of luxury items which the consumer can do without because the **elasticity of demand** is involved. (In simple terms, the demand for a product or service is *elastic* if sales change greatly as prices change. For example, if the price of fur coats rises by 10 percent and the sales drop by a greater percent – say, 25 percent – then demand for fur coats is said to be elastic. Demand for necessities tends to be *inelastic.* Suppose that the price of milk rises by 50 percent. The percent drop in sales will be less – say, only 12 percent.) If the teacher wishes to introduce supply and demand curves at this point, the boycott can be used to illustrate the effect of shifting the demand curve to the left. Even if it is not deemed desirable to use graphs, however, a simple supply and demand analysis can be made and the law of supply and demand can be presented in an elementary fashion.

THE PROBLEM OF **monopoly** was an important one in the 1770s, and of course there is much concern today over **business concentration** and its effects upon the consumer. (By definition, monopoly means that there is only one seller of a product or service. This situation is hard to find in the real world, but business concentration in the form of **oligopolies** – a few sellers – is quite common today, and some of the economic effects are similar to those that would stem from a pure monopoly.) When the British Parliament in May of 1773 passed a law enabling the British East India Company to sell tea in America at lower prices than American merchants could profitably charge, the British company had a monopoly on the sale of tea. In this case, the consumer of tea seemed to be the winner, but angry colonial merchants were up in arms. The Boston Tea Party and similar incidents in Maryland, New Jersey, and New York resulted. The punitive laws then passed by Parliament included a ban on trade with any nation except Britain and the British West Indies. Note the inclusion of these restrictions among the economic grievances listed in the Declaration of Independence.

The year in which the American colonists declared their independence – 1776 – was also the year in which Adam Smith published his famous book *The Wealth of Nations.* Smith argued against mercantilism in favor of **free trade.** It could be interesting to have the students read the relevant sections of Smith's book and indicate in what ways his arguments might have applied to the economic situation in the American colonies. Smith's theories can serve to inform the class of the essential tenets of **capitalism** or **free enterprise.** It should be noted, of course, that although the free enterprise system forms the basis of the American economy, there have been many changes and modifications with the result that we have, in effect, a **mixed economy** – one that contains elements of several systems.

Value questions need not be ignored in this phase of the course. Posing questions such as the following should lead to many stimulating discussions:

Are economic freedoms worth fighting for?
Is any one economic system (such as capitalism) superior to all others?
When the economic interests of different groups clash, how do we decide which group should have priority?

DISCUSSION QUESTIONS

Economic concepts, ideas, etc., that might be brought up in answering the questions are printed in **heavy type** (boldface).

1. The American system of **free enterprise** has helped to create one of the highest standards of living the world has ever known.

   (a) Define freedom of enterprise.
   Private ownership; profit motive; competition; minimum of government interference.

   (b) How does (1) the individual, and (2) the community benefit from free enterprise?
   Lower prices and costs; efficient allocation of resources.

   (c) How did mercantilism differ from freedom of enterprise?
   Government intervention and control; trade restrictions; misallocation of resources.

2. The United States today is a "common market" of 50 states that enjoy the benefits of free trade.

   (a) What is free trade?

   (b) What is a common market?
   Absence of trade barriers; common trade policy toward nonmembers.

   (c) Discuss the benefits we enjoy because free trade prevails among the 50 states.
   Economic integration; specialization and exchange; efficient allocation of resources.

   (d) If trade is so beneficial, why do so many countries impose tariffs on foreign goods?
   Protection of domestic industries and of workers from foreign competition.

3. American colonists objected to British controls on colonial trade and industry.

   (a) Why did the colonists oppose tariffs and excise duties on imports?
   Effects of tariffs and duties on prices of products.

   (b) Why did they oppose monopolies, such as the tea monopoly enjoyed by the East India Company?
   Effects of monopolies on consumer prices and on potential competitors.

   (c) If you lived in Boston in 1773, would you have participated in the Boston Tea Party? Defend your answer.

   (d) Why were the British Navigation Acts and Acts of Trade resented by some Americans?
   Effects of trade barriers on commercial interests.

   (e) In what ways did the American colonists benefit from the Navigation Acts?

4. Why did the colonies develop an efficient merchant marine but few thriving manufacturing industries?
   Efficiency in the allocation of productive resources; effects of government policies.

   (a) Why did Britain encourage colonial production of pig iron?

   (b) Why was Britain opposed to colonial manufacture of finished iron products?
   Protection of domestic industries; need for raw materials.

5. Show how the growth of American colonial trade and industry increased the circular flow of goods, services, and money.
   Interdependence; specialization and exchange.

6. "The intention of British mercantilist regulations was not so much to interfere with economic activities of the colonies as to build up British commerce and industry." To what extent do you agree or disagree with this statement? Why?
   Mercantilist theory; importance of commerce and industry; economic interdependence.

7. One of the basic causes of the American Revolution was the mercantilist policy of Britain.

   (a) What was the purpose of mercantilism?

   (b) How did mercantilist policies affect the colonies?
   Barriers to economic growth and development; inefficient resource allocation.

   (c) Is mercantilist theory sound? Defend your answer.

   (d) To what extent is mercantilism practiced today?
   Use of tariffs, quotas, other trade barriers.

8. The American colonists enjoyed a considerable amount of economic freedom, especially before the French and Indian War.

   (a) If you were an American colonist living in New York in 1750, what economic opportunities would have been open to you?
   Free enterprise; freedom of contract; free markets; competition; profits.

   (b) Contrast the advantages of free trade and economic specialization that you might have had in colonial times with the effect of the restrictions on trade with the Spanish colonies.
   Specialization and exchange; efficient allocation of resources; effects of trade barriers.

9. Restrictions on trade have always been of great concern.

   (a) How did the Americans react to increasing British restrictions on colonial trade and increasingly effective enforcement of mercantilist policies on the eve of the Revolution?
   Effects of trade barriers on consumers and merchants.

   (b) Explain how increasing competition from Common Market countries (such as Germany) and from Japan has caused problems for American manufacturers, workers and farmers in recent times.
   Effects of foreign imports on domestic markets.

   (c) If West Germany could produce both cars and wine more cheaply than France, why might Germany still decide to specialize in auto production and buy wine from France?
   Laws of absolute advantage and comparative advantage; specialization and exchange.

   (d) How does a comparative advantage in trade differ from an absolute advantage?

10. Although tariffs are federal taxes on imports, one politician has referred to the tariff as "a local issue." People's views on trade often depend on what is produced in their particular area. Explain how the views of the following on the protective tariff might differ; professional economists; leaders of the AFL-CIO; manufacturers of textiles and steel; export-import industries; bankers involved in financing foreign trade.

11. How did the French and Indian War tend to bring the mother country and the colonies together?

12. Why did the American colonies and Britain need one another before the French and Indian War? After the war?
Economic interdependence; specialization.

13. Why did changes take place in the arguments of the colonists concerning British taxation and regulation between 1763 and 1775?
Payment for cost of war (British debts rose about £70 million).

14. As a British subject, how might you have felt about the colonial claim of "no taxation without representation"?

15. Why did the British government limit colonial expansion of the fur trade and settlement in the West?

16. Was Britain's new economic policy after the French and Indian War (which discarded "salutary neglect" in favor of "sharing the tax burden") justifiable? Explain.
Cost of government; various types of taxes; various uses of taxes; regressive, proportional, and progressive taxes.

17. The colonists resented the Tea Act because it gave the East India Company a monopoly on the sale of tea.
    (a) What is a monopoly?
    (b) Why do most Americans dislike and sometimes fear monopolies?
    Effects of monopolies on prices, output, the allocation of resources.
    (c) Are monopolies a menace to our free enterprise economy today? Explain your answer.
    Arguments for and against business concentration; government control of monopolies.

18. What is a boycott? Why can it be an effective economic weapon?
    (a) Why did the American colonists boycott British goods before the Revolution?
    Demand; elastic and inelastic demand; profits; economic pressure.
    (b) If consumers in your area boycotted food stores because they deemed prices as unjustifiably high, would you join them? Explain your answer.

19. Are taxes levied *solely* to obtain revenue to run the government? Explain.
Use of taxes to control imports (example: tariffs); redistributing income through the use of a progressive tax.
    (a) How does a progressive tax differ from a proportional tax?
    (b) Under what conditions does a tax become regressive?

20. In what ways were the causes of the modern-day independence movements in Asia and Africa similar to the causes for revolt of the thirteen colonies? How did these revolutionary movements differ?
Mercantilism; economic imperialism; economic exploitation; rising expectations in underdeveloped areas.

21. How did the revolutionary war affect American economic growth? How did the Revolution affect each of the following: westward expansion, household industries, manufacturing, farming, foreign commerce, land ownership and land tenure policies?
Economic effects of wars; factors influencing economic growth; economic independence.

22. Adam Smith's *The Wealth of Nations* and the Declaration of Independence were issued in 1776, and both are called "milestones" on the road to freedom. Do you agree? Justify your answer.
Mercantilism; free enterprise; laissez faire; economic freedom; trade.

23. In view of the aim of the American Revolution, why were countries like France and Spain willing to cooperate with the colonies?
"Beggar-thy-neighbor" policy; international trade.

24. If you were a Spanish colonial in Latin America who read the Declaration of Independence, what would your reaction be?

25. Considering the relative strengths of the British and the Americans, why did the Americans win the American Revolution?

26. Why were the British more willing to see the war result in a generous peace with the former colonies than were the French and the Spanish?
Economic interdependence; foreign trade.

ACTIVITIES

1. **Sociodrama:** Ask one student to imagine being a ship owner, another a distiller of rum, and a third a plantation owner in the British West Indies. Each should testify before a Board of Trade and Plantations on the wisdom of establishing free trade between the British colonies in America and the French West Indies.

2. **Debate:** Resolved: That the principal causes of the American Revolution were economic in nature.

3. **Editorials:** Divide the class into American and British newspaper reporters. Ask them to write editorials from the British or American point of view on one of the following:
    Boston Tea Party
    Stamp Act
    Tarring and feathering of a revenue agent
    Salutary neglect
    Townshend acts
    Sons of Liberty

4. **Table:** Construct a table listing the acts passed by the British Parliament (or proclaimed by the Crown) from 1650 to 1775 in the name of mercantilism or imperial defense. Include the date and provisions, and indicate whether the act or action was favorable or unfavorable to the colonies.

5. **Brief:** Prepare a brief maintaining that the British Parliament was legally within its rights in enforcing mercantilism and the new economic policy established after the French and Indian War.

6. **Editorials:** Write an editorial for a 1774 issue of a colonial newspaper, demanding "No Taxation Without Representation" or write an editorial entitled "Ungrateful Children" for a London newspaper.

7. **Role-playing:** Set up a trial for a smuggler caught by a customs agent for violating the Sugar Act. Let one student play the customs officer, another the smuggler, a third the judge, and the remainder of the class the jury. In arriving at the verdict, the class will have explored the issues involved.

8. **Map:** On an outline map of the world draw a pictorial or diagrammatic representation of triangular trade routes. Use arrows to indicate the direction of the flow of imports and exports, and label the principal ones.

9. **Oral report:** Make a transparency of the map (above) and present an oral report to the class on the relation of the triangular trade, rum-making, and smuggling to the theory of mercantilism.

10. **Panel discussion:** Appoint four students to the panel. Two should investigate and report on the "necessity" of the British plan of taxation as reflected in the Grenville and Townshend policies. The other two members do the same on the "stupidity" of those policies.

11. **Individual research:** Have a bright student investigate the validity of the economic grievances among the 27 listed in the Declaration of Independence by citing historical evidence in support of, or contradicting the contentions.

12. **Review:** Ask the class to prepare five questions which they believe would constitute a fair, comprehensive test of the economic causes and results of the American Revolution.

13. **Debate:** Resolved: That it was inevitable that the thirteen American colonies would become "free and independent states."

14. **Time line:** Draw a time line emphasizing the main economic legislation and events that led to the American Revolution.

15. **Role-playing:** A group of Americans are discussing the Declaration of Independence in a tavern. Select students to express the views of a wealthy landowner, a ship owner, a merchant, farmwife, and a blacksmith regarding the wisdom of the proclamation.

16. **Game:** "Colonial Economy Game" (1982). Each student starts with a small sum of money and attempts to become a planter, a great landowner, or a wealthy merchant by investing in the products of the thirteen colonies. The game may be played on several levels (grades 7–12), from a simple to a more complex and realistic version. (Time: one or more class periods; no. of players: 2–entire class; H.M.S. Historical Games)

17. **Game:** "Causes of the American Revolution" (1982). Students attempt to counter British imperial activities from 1763 to 1775 by choosing the correct colonial response. (Grade level: 7–12; time: one or more class periods; no. of players: 2–entire class; H.M.S. Games)

18. **Filmstrip:** *The Revolution.* Show this filmstrip to present a comprehensive overview of the revolutionary period beginning with the French and Indian War; depicts American resistance to a variety of taxes and regulations and the events and outcome of the struggle. (Color, 5 filmstrips, 5 cassettes, guide; American Heritage Sound Filmstrips)

19. **Filmstrip:** *Free Enterprise* (1976) introduces the free enterprise system, its merits and shortcomings, and the crucial role of profits. (Color, 2 filmstrips, cassette or record, 24 min.; Prentice-Hall Media)

20. **Game:** "Triangle Trade." This simulation explores the slave trade, the economic structure of the New England colonies, and the mercantile philosophy of Great Britain during the seventeenth century. It teaches the participants why the British government opposed the triangle trade route, and why the New England colonies did not fit into the British mercantile system. Participants assume the roles of the major historical parties in the triangular trade route. (Time: 1–3 hours; no. of players: 15–44; Education Manpower, Inc.)

21. **Pamphlet:** Read *Money in Colonial New England* (Federal Reserve Bank of Boston, 36 pp., free, 1974). It is a short account of the history of coin and currency in New England from 1630 to the 1780s.

22. **Posters:** Ask the students to prepare posters, signs, notices, leaflets, and the like, indicating colonial opposition to the Stamp Act, Tea Act, Intolerable Acts, etc.

23. **Picture study:** Use the pictures in *The American Heritage Book of the Revolution* (Simon and Schuster) to illustrate the spirit and purpose of the revolutionary era.

24. **Map:** Ask the students to draw and label on an outline map of North America the original thirteen states and the boundaries of the United States after the Treaty of Paris (1783).

25. **Debate:** Resolved: That the United States adopt a policy of free trade.

26. **Table:** Ask the students to prepare a two-column table

summarizing the arguments for and against the protective tariff.

27. **Problem for analysis:** In 1983 the Fraunces Tavern Museum in New York City featured an exhibition that explained the role of the tavern in eighteenth century American life. In colonial days, tavern activities centered around everyday business transactions, mercantile exchange, municipal meetings, and events such as the auction of goods, property, and slaves. Why did taverns serve as the center of American life in colonial times?

Have committees of students research and report on such topics as:

Taverns and the economy of the community
Taverns and politics before the American Revolution
Taverns and blacks and indentured servants
Women as workers and managers of taverns
Taverns and travelers

Topic 3

The Confederation Period and the Constitutional Convention

Economic Facts, Concepts, Principles, or Problems

- Economic aspects of the Constitution and how economic factors helped to bring it about
- The basic problem of economics (scarcity); efficient allocation of resources through specialization and exchange
- Factors of production
- Opportunity cost

MANY OF THE new nations that have emerged since World War II have achieved political independence only to find themselves confronted by serious economic problems. Although the United States began its life as an independent nation with many advantages that today's poor countries do not have, it nevertheless experienced critical problems. The Articles of Confederation gave Congress the power to declare war, borrow money, regulate the value of coins, and establish standards for weights and measures. However, Congress could not draft anyone into the army but, instead, had to rely upon the states for troops, and it could not directly tax the people. Although Congress could create metal coins, the states controlled paper money and banks. Thus, instead of one unified money system, there were several. Another important weakness was that Congress could not regulate commerce.

Trade and commerce were important to America, but Congress found it difficult to make trade treaties. Foreign governments feared that the states would not abide by the terms of such treaties because Congress had no real power to enforce its decisions. The lack of respect for the new United States was evidenced by such events as the closing of the port of New Orleans to American goods.

Doing business within the new nation was also difficult. Paper money that had been issued by Congress during the Revolution was valued at only one-thousandth of its original face value, and the money provided by the states varied in value. States discriminated against one another in commercial affairs, and some placed tariffs on the goods of other states. All of this restricted commerce and economic progress.

There were other economic problems within the states as well. Farmers had gone into debt to purchase land and buildings but now found it difficult to repay. Some legislatures tried to help by allowing longer repayment periods, issuing paper money liberally, or reducing taxes. These actions irked the creditors, and violence erupted. (Throughout American economic history, the conflict between debtor and creditor interests is a continuing theme.) Shays' Rebellion in Massachusetts resulted when creditor interests gained control of the legislature and levied high taxes to pay state debts. Already heavily in debt, many farmers lost their property when they were unable to pay these heavy taxes. Although the uprising was crushed, it led many to fear that Congress did not have adequate power to put down a more serious insurrection.

THE MOST BASIC economic problem is that of **scarcity**. The desires of people tend to be unlimited, but productive resources are limited. Productive resources (also called **inputs** or **factors of production**) are land, labor, and capital. By definition, **land** includes all natural resources. **Labor** refers to all productive human effort. **Capital** is human-made wealth used to produce goods and services. It includes tools, machinery, mines, mills, factories, transportation equipment, and the like.

A nation must have land, labor, and capital in the right amounts if it is to develop a viable economy. A country may have an abundance of natural wealth but be poor because it lacks trained people or capital. It is interesting to compare America's supply of productive resources in its early years with the supplies in some of today's new nations. (Note, for example, that the United States had a huge land base with abundant natural resources but a small population, while some of the newly emerging nations have huge populations and a relatively small land base with limited natural resources. Thus, for the United States a growing population was a blessing

because it helped to bring about a better balance between land and labor, while for many of today's underdeveloped nations a growing population is an impediment to economic development.)

As with all societies, young America had to answer the basic economic questions: What shall we produce? How much shall we produce? For whom shall we produce? How can we utilize our scarce resources most efficiently to maximize output? The principle of **opportunity cost** is vitally important here. When a nation is fully and efficiently utilizing its productive resources, it can produce more of product "X" only by reducing the output of product "Y" (or some other good or service). One of the opportunity costs of producing more cars, for instance, is that we forgo producing more houses or some other good that can be manufactured with the natural resources, labor, and capital that had to be diverted to automobile production. On the other hand, if we have *not* been using our existing resources efficiently, we can produce more of everything that is within our productive capability if we will only eliminate the inefficiencies. American entrepreneurs of the 1780s realized that some of the problems cited above were preventing the full and efficient utilization of our existing resources.

In 1785, REPRESENTATIVES of Maryland and Virginia met at Mount Vernon and agreed on control of the Potomac River, the establishment of a uniform system of money and trade regulations, and annual talks on commercial problems. The idea spread, and in 1787, Congress decided to meet in Philadelphia in order to "revise the Articles of Confederation." Economic matters loomed large in the deliberations, for there were hopes for more trade with foreign nations, a uniform monetary system, and an end to restrictions on interstate commerce. The economic aspects of the new Constitution that emerged speak for themselves. Congress now had the power to tax, to coin money and regulate its value, and to control commerce among the states and with foreign nations. Federal taxes were to be uniform throughout the United States, and there would be no tax on exports.

In dismantling the trade barriers that states had been setting up, the Constitution encouraged **specialization and exchange,** and specialization and exchange help to account for our great economic progress and wealth. New England was not well-suited for agriculture, but had the necessary water power for factories. The South, on the other hand, could produce cotton and other agricultural goods that could not be grown easily in New England. The South could now specialize in cotton while New England specialized in manufacturing, and the two regions could freely trade with one another. By specializing, both could become more efficient; and by trading, the fruits of that efficiency would be shared. People could move to the new states in the West, confident that the produce of their farms or the output of their mills could be sold anywhere in the United States, subject only to the natural restriction of **consumer demand.** In short, the United States became an enormous **common market.**

The constitutional provision that private property may not be seized except for sound legal reasons also helped to promote business. Individuals are free to enter any business or profession they choose.[1] Success is not guaranteed, but one is legally free to try. Despite being marred by discrimination and by inequalities in income and educational opportunity, freedom of entry has been an important factor in economic development. This freedom has led to the development of many new products and industries. A basic value question that might be discussed at this point is the extent to which individuals should be free to pursue their own economic interests. Another is the question of having the government aid those who have been handicapped by low income, discrimination, and the like.

DISCUSSION QUESTIONS

Economic concepts, ideas, etc., that might be brought up in answering the questions are printed in **heavy type** (boldface).

1. Since human wants never seem to be completely satisfied, economists call scarcity "the universal economic problem."
   (a) What is scarcity as economists use the term?
   Limited resources vs. unlimited wants.
   (b) Why does "the fact of scarcity" create the "allocation problem"?
   What, how much, and for whom shall we produce?
   (c) Show how the allocation problem involves the principle of "opportunity cost."
   Efficient allocation of resources; maximizing output.
2. What advantage does a region have if it specializes in the products it can produce best, provided it can exchange them for the products of other regions?
   Specialization and exchange; efficient allocation of resources; geographic division of labor; natural resources; laws of absolute and comparative advantage.

1. Of course, there are often legal constraints. One must have a license or permit to operate certain businesses, and zoning laws may prevent such actions as the building of a factory in a residential area.

(a) Why did many New Englanders turn to the sea by the end of the seventeenth century?

(b) Why did manufacturing begin in New England towns?

(c) Why did the South turn to plantation crops?

3. A young person deciding to go west to Ohio or Kentucky rather than remain on a New England farm was probably using the principle of opportunity cost.

(a) What does the term "opportunity cost" mean?

(b) How does deciding to go to college involve an opportunity cost?
Part of the real cost of one's education is the income that could have been earned if the student entered the labor force instead.

4. In *The Wealth of Nations* Adam Smith pointed out that a nation's prosperity depends upon production and not upon hoards of precious metals.

(a) Show how a nation's wealth depends upon the following ingredients in making a country productive: (1) its population; (2) its natural resources; (3) its ability to produce.
Real wealth; factors of production; education and technology.

(b) Explain how the economic and political system created by the U.S. Constitution encourages productivity.
Economic freedom; profit motive; free trade among states.

5. To what extent did the Constitution, as drawn up by the Founders, endorse Adam Smith's idea about laissez faire, competition, and the proper activities of government?
Economic provisions of the Constitution; government's role in the economy.

6. During the years 1781 to 1789, under the Articles of Confederation, some economic groups were happy while others were miserable.

(a) Which groups were satisfied with economic conditions as they were? Why?

(b) Which groups were dissatisfied? Why?
Conflicting economic interests, such as debtors vs. creditors.

(c) Why was this period called "the Critical Period" of American history?

7. Why does the Constitution, drawn up about 200 years ago, meet the needs of the United States today?
Elastic Clause; flexibility; possibilities for varying interpretations.

8. Under the Articles of Confederation, the federal government was really a league of independent states.

(a) What problems arose between and among states because there was no strong national executive to enforce the laws?
Barriers to free trade; inefficient use of resources; lack of central power to regulate interstate and foreign commerce; variety of tax policies; monetary instability.

(b) Why did the Articles of Confederation deny the central government the power to levy taxes?

9. The Constitution of the United States has been called a "bundle of compromises."

(a) Describe two economic proposals for the new Constitution upon which the North and South or the agricultural and commercial interests were divided.

(b) Explain the compromises in the Constitution that dealt with each of these proposals.

10. Why does the Constitution permit monopolies for inventors and authors by granting patents and copyrights?
Economic incentives; government role in encouraging innovation and technology.

11. "The Constitution was extorted from a reluctant people by a grinding necessity." Discuss the truth or falsity of this statement by John Adams.
Need for economic unification; economic problems of the "critical period."

12. Compare the economic problems of the new nations that have emerged since World War II with those faced by Americans under the Articles of Confederation.
Importance of capital and social capital (infrastructure); government's role in the economy; monetary stability; population; trade; economic unification; education.

13. After the Revolution, the United States faced international as well as domestic economic problems.

(a) Why was it difficult to make trade treaties with foreign nations during the "critical period?"
Importance of uniform trade policy and centralized regulation of commerce.

(b) How did Great Britain and Spain show lack of respect for the government of the United States under the Articles of Confederation?

14. In a sense, with the adoption of the Constitution, a common market was established in the United States.

(a) What is a common market?

(b) What are its advantages? Disadvantages?
Free trade; specialization and exchange; efficient allocation of resources; enlarged markets; benefits and problems of free movement of labor and resources.

(c) Would you be in favor of a Common Market of North America? Give your reasons.
Arguments for and against trade restrictions; re-allocation of resources; competition.

15. Explain how the Constitution protects freedom of enterprise and property rights.

Private ownership as a business incentive; freedom of opportunity; competition.

16. To what extent should individuals be free to pursue their own economic interests?
Competition; laissez faire vs. government intervention.

17. To what extent does the Constitution attempt to eliminate inequalities of educational opportunity and inequalities in income?
Education and productivity; income distribution.

18. To what extent should government aid those who have been handicapped by low income, discrimination, and the like?
Government's role in the economy; income distribution; economic effects of discrimination.

19. What economic conditions in Massachusetts in the early 1780s contributed to Shays' Rebellion?
Inflation; worthless currency; debtors vs. creditors.

20. Were the conditions described above widespread throughout the United States? Explain your answer.

21. How did Alexander Hamilton prepare the ground for an "economic revolution" that took place several decades later?
Hamilton's financial plans; establishment of full faith in the credit of the United States government.

ACTIVITIES

1. **Roundtable on the Constitution and trade:** Suggest a roundtable discussion on how the Constitution promoted trade. Have one pupil report on the problems of interstate trade under the Articles of Confederation. A second student would survey Article I, Sections 8, 9 and 10 of the Constitution. A third student should relate Section 8, paragraphs 1, 3, 5, 7, 10 and 18 in the Constitution to the problem of trade. And a fourth student could do the same for section 9, paragraphs 5 and 6; section 10, paragraphs 2 and 3. The moderator could summarize the discussion.

2. **Founders Hall of Fame:** Choose five or six leaders in the Constitutional Convention of 1787. Select students to study each leader and report on his role in writing the Constitution.

3. **Letters:** Ask the students to imagine that they are farmers in western Massachusetts just before Shays' Rebellion. Have them write letters to the governor of Massachusetts, describing their problems and asking for help.

4. **Individual reports:** Assign students to prepare oral reports on the following topics:

   The causes and consequences of Shays' Rebellion
   "Not Worth a Continental" – Gresham's Law
   Opportunity costs
   Scarcity – *The* economic problem

5. **Buzz session:** Divide the class into small groups to discuss what they would do to remedy the weaknesses of the Articles of Confederation. As the group leaders report, the teacher lists their suggestions on the chalkboard. Using textbooks and/or the Constitution of the United States the class can find out how each weakness was actually remedied.

6. **Table:** Ask the students to list in tabular form the weaknesses of the Articles of Confederation (what the document failed to do) in one column, and how the Constitution remedied these shortcomings in a second column.

7. **Congressional committee on the Northwest Territory:** Organize the class into a congressional committee considering the Land Ordinance of 1785 to discuss the pros and cons of the sale of land in small parcels. On a succeeding day, this committee can also consider the provisions of the Northwest Ordinance and "forecast" the economic, social, and political results of its enactment.

8. **Bulletin board display:** Appoint a committee to draw up plans for a bulletin board display on the economic provisions of the U.S. Constitution. The committee should pool ideas before actually preparing the display.

9. **Glossary:** Add to your glossary brief definitions of the economic terms found in the original Constitution.

10. **Class constitution:** The difficulties of writing a constitution can be brought home to the students by having them devise a class constitution as a special homework assignment. Discussion of the constitutions in class on the following day will show the need for checks and balances, a bill of rights, a judicial branch, etc.

11. **Dramatization:** Organize the class as the Constitutional Convention of 1787. Each student takes the name of, and becomes familiar with, the views of a real delegate before playing a role as that delegate in the class dramatization. For example, Randolph introduces the Virginia Plan; Paterson, the New Jersey Plan, and so on. Reference: *The Great Rehearsal* by Carl Van Doren (Viking).

12. **Editorial:** Imagine yourself an editor of a newspaper in one of the thirteen original states just before the adoption of the Constitution. Write an editorial urging your state to ratify the new form of government.

13. **You were there:** Have the students write and enact the script for a debate on an economic issue in the Constitution (export taxes, for example). If the skit is taped, it can be played back to the students and used in other American history classes.

14. **Panel discussion:** Have the students impersonate Franklin, Hamilton, Madison, Paterson, Randolph, or other delegates discussing an issue involving economics at the Constitutional Convention.

15. **Individual research:** If you live in one of the original states, investigate the campaign for ratification of the U.S. Constitution in your state, summarizing the arguments for and against ratification by your state.

16. **Filmstrip:** *The Constitution: The Compromises That Made a Nation.* Focusing upon the debate which resulted in the "Great Compromise," the film concentrates on the personalities involved, and the need felt by the founders for a new government if the republic was to survive. (Color, 2 filmstrips, 2 cassettes, teacher's guide; Learning Corporation of America)

17. **Simulation:** "Disunia: A Simulation of the 21st Century: Paralleling the Problems of Sovereignty in 1781–1789." This game makes the students cope with the problems of the Critical Period through similar experiences on a new planet in the year 2087. (Time: 3 weeks; no. of players: 25–35; 35 student guides, one teacher's guide; Interact)

18. **Cassette:** *You Are There.* Side One: "Philadelphia, July 4, 1776." Side Two: "Ratification of the Constitution, June 25, 1788." CBS reporters create a sense of "spontaneous history" by using the techniques of modern broadcasting. Students share the drama and excitement of these two great events. (Social Studies School Service)

19. **Film:** Show *American Revolution: The Postwar Period* to illustrate the weaknesses of the Articles of Confederation, the movement for revision, and the calling of the Constitutional Convention. (10 min.; Coronet.)

20. **Filmstrip:** Show *Writing the Constitution* to teach the causes of the failure of the Articles of Confederation and the work of the Convention. (Jam Handy.)

21. **Map:** On an outline map of the United States, have the students draw and label the original thirteen states, and the claims of certain of these states to lands west of the Appalachians.

22. **Book report:** Ask a student to read and report on Marion L. Starkey's *A Little Rebellion* (Knopf) for an account of Shays' Rebellion.

23. **Committee report:** Have a student committee study the U.S. Constitution from the economic point of view, using the following questions as guides:
    (a) What economic conditions gave rise to particular portions of the Constitution such as the powers of Congress or specific clauses of that document like the three-fifths compromise?
    (b) What economic issues stirred controversy during the deliberations of the Philadelphia Convention?
    (c) How are students affected today by the outcome of the Philadelphia debates concerning interstate commerce, taxation, and free trade among the states?
    (d) What economic theories and concepts do students need to know to understand the issues at Philadelphia?

24. **Problem for analysis:** In *The Critical Period of American History* (1888), John Fiske portrayed America under the Articles of Confederation as a crisis-ridden country. His view has been sharply qualified by recent historians who contend that during the years 1781 to 1789, some economic groups were satisfied with conditions while others were miserable. Which view is closer to the truth?
    (a) Which groups were satisfied with economic conditions as they were? Why?
    (b) Which groups were dissatisfied? Why?
    (c) How were the Articles of Confederation a fulfillment of the Revolution's goals?
    (d) Explain why you do, or do not, believe that the confederation could command respect neither at home nor abroad.
    (e) What were the leading accomplishments of Congress under the Articles of Confederation? Its chief failures?

Topic 4

Establishing a New Government

Economic Facts, Concepts, Principles, or Problems

- Need for national economic unity
- Government finance
- Sound money
- What money is and what form it takes
- Revenue and protective tariffs
- Public debt
- Law of demand

A study of this topic offers opportunities to reinforce and expand upon some of the economic concepts introduced earlier and to acquaint students with some new ones. After the new constitution was adopted, the United States government had to find some source of funds to finance its operations. One of the first acts of the new Congress was to enact a **revenue tariff**, i.e., a tax on imports. Its major purpose is to raise money for the government, so the tariff cannot be too high if it is to be effective. A **protective tariff**, on the other hand, is designed to keep foreign goods out of the country and thus relieve domestic producers from the pressures of foreign competition. The controversy over the tariff and other impediments to trade is a theme that runs throughout U.S. history, and the issue is very much alive today.

Another recurring theme is that of the **public debt**—the money that the government has borrowed. The new United States government was faced with the problem of the debt, and public borrowing continues to be a live issue in modern times. The former government had not repaid the large sums that the Congress and the state governments had borrowed from foreigners and from Americans to help finance the Revolution. New governments often repudiate the debts of old ones, but Hamilton wisely urged that all the old debts be honored. In spite of the great cost, this would show the world that the United States was determined to become financially sound. Discussing Hamilton's policy can lead to a discussion of **credit** in general—the vital role that credit plays in both domestic and international affairs, the importance of establishing a good credit rating, and so on. Perhaps some of the students own U.S. savings bonds, and they should understand why U.S. government securities are among the safest in the world.

The tax issue comes to the fore again with the whiskey tax of 1791. Was the tax really needed to supplement the revenue tariff? Was it fair to place a tax on an item that was important to one group of Americans? (The farmers of western Pennsylvania found it expensive and difficult to transport their grain across the Appalachians to the eastern markets. Distilling the grain into whiskey eased the transport problem, and as whiskey, the grain brought a good price.) Just what *is* a "fair tax" anyway? If the students have already learned the **law of demand** they can now again explore the importance of **elasticity** (see Topic 2). The tax would raise the retail price of whiskey and therefore reduce sales, for if whiskey is not essential, it is probable that the percentage drop in sales will be greater than the percentage rise in price, that is, the demand for whiskey is **elastic**. As a consequence, the farmers would find their incomes dropping. Therefore, the whiskey tax of 1791 was followed by the so-called Whiskey Rebellion. The rebellion did not amount to much, and it even had some comical aspects, but it did serve to show the people that the new government had the power to enforce the law and to collect taxes. (Some 12,000 troops—at least for a time under the command of Washington himself—were sent to crush the rebellion.) Although no one loves taxes, it must be realized that no government can be effective unless it has the power to levy and collect taxes.

Hamilton realized the importance of business and industry and the need for a balanced economy. He saw that a one-crop or one-product economy is not on firm ground and promoted the development of manufacturing. Thus, a crop failure or a drop in farm prices could be offset by a healthy market for manufactured goods. Note that some of the poor nations today have a similar need to diversify. Indeed, there are even parts of the United States where diversification would help to strengthen the local economy. Hamilton understood the concept of **productivity**, for he insisted that industry would become more efficient and productive if machines replaced hand production. (Education is another important factor in increasing productivity. In fact, some economists believe that the education and training of our labor force have been more important in raising the

productivity of labor than technological developments per se.)

Stability was sorely needed in our early system of money and banking, and Hamilton attacked this problem through his proposal for the First Bank of the United States. The bank was intended to provide a safe currency, handle government funds and exercise a certain amount of control over smaller banks. At this point students should understand the **nature of money,** and how it functions as a medium of exchange, a standard of value, a basis for credit, and a means whereby people may defer consumption. The **criteria of good money** (acceptability, storability, transferability, and so on) should be stated and explained so that the class will be able to evaluate the various types of money that were used throughout U.S. history. Students should know that a nation's money supply must increase as the nation grows and develops, but that too much money can create a problem of **inflation,** while too little can lead to a **deflation.** There will be plenty of opportunities to elaborate on these matters throughout the course.

The development of better machines and industrial methods hastened our economic growth, often meant more and better goods at lower cost, and made it possible for workers to enjoy higher wages and businesses to reap greater profits. The Constitution encouraged the invention of new and better machinery by providing that inventors may have the exclusive use of their creations for a limited period of time. (Some feel that the patent system is often abused today, however, and has helped to create monopolistic control over certain products.)

DISCUSSION QUESTIONS

Economic concepts, ideas, etc., that might be brought up in answering the questions are printed in **heavy type** (boldface).

1. What is a national debt?
   Government finance; public borrowing; government bonds.
   (a) How was the debt faced by George Washington's administration incurred?
   Financing wars; borrowing as opposed to taxing.
   (b) Why did Alexander Hamilton insist that the new federal government pay the debts of the revolution?
   Role of credit; importance of good credit rating.

2. Why did the federal government assume the debts incurred by the states during the revolution?
   (a) Which sections of the new republic opposed the assumption of the states' debts? Why?
   Inequities among the states; government bonds; speculation; interest.
   (b) How was the controversy settled? Was this the best solution? Why? or Why not?
   (c) Why is it important for a government (as well as an individual) to have a good credit rating?

3. Why did Hamilton urge Congress to charter the First Bank of the United States?
   Function of central banks; role of money and credit in the economy.
   (a) Why was his plan opposed? By whom?
   Debtor vs. creditor interests; fears of monopoly.
   (b) Explain the powers granted to the Bank of the United States to achieve its purpose.
   (c) Why was a central bank needed in the 1790s? Why is one necessary today?
   Money and credit; monetary stability; banking system.

4. Explain why President Washington's selection of Alexander Hamilton as Secretary of the Treasury had a profound influence on the development of the American economy.

5. (a) What were Hamilton's chief financial plans?
   (b) What were the objections of opponents to each one?
   (c) Summarize the evidence that Hamilton favored a strong central government.
   (d) How did Jefferson's views of the Constitution differ from those of Hamilton?

6. Sheep were used as money in biblical times, cattle were used in ancient Rome, tea in ancient China, and tobacco in colonial Virginia. Explain why. Would such items be usable as money today? Explain your answer.
   Criteria for good money.
   (a) Why did gold become an "international money" for the settlement of payments among nations?
   (b) Could something other than gold serve just as well? Why or why not?

7. Prices are related to the amount of money and the quantity of goods available.
   (a) How are prices affected if dollars are scarce and goods are abundant?
   (b) How are prices affected if dollars are abundant, and goods are scarce?

(c) What terms do economists use to describe these conditions?
Deflation and inflation; quantity theory of money.

8. The new federal government offered to redeem the paper money issued by the Continental Congress at one cent per dollar. Was the government justified in refusing to redeem at face value? Explain your answer.
Currency depreciation; inflation; face value; paper money as a promise to pay.

9. During the debates over Hamilton's financial plans, the country gradually divided into two political parties with distinct programs.
   (a) Name the two parties, their leaders and their attitude toward the interpretation of the new Constitution.
   (b) Discuss the essential differences between the principles advocated by these parties.
   (c) Would you have been a Jeffersonian or a Hamiltonian in the years 1789–1800? Explain your answer.
   Government's role in the economy.

10. (a) Why did Hamilton want to put political power into the hands of people of wealth?
    (b) What were the benefits of Hamilton's program to the farmers? To the merchants? To the manufacturers?

11. What were the immediate economic effects of the American Revolution?
    (a) In what ways had the Revolution stimulated manufacturing in the United States?
    Need for economic self-sufficiency during wartime.
    (b) How did peace with Britain affect these industries?
    Competition; protectionism; economic freedom.
    (c) How did Hamilton suggest that the young republic cope with this situation in his *Report on Manufactures?*
    Need for balanced economy and diversification; factors affecting productivity; technological development; patents as incentives; protective tariffs and revenue tariffs.

12. What is the difference between a revenue tariff and a protective tariff?
    (a) How would you classify Hamilton's tariff of 1789? Why?
    (b) Why did the strongest objection to the tariff come from the South during the first half of the nineteenth century?
    Effect of tariffs on living costs; effects on exporters.

13. What evidence can you give to show that a major objective of the leadership of the new government under the Constitution was the security of property rights and the promotion of the capitalist system?

14. Compare the action of the federal government during Shays' Rebellion with its activities during the Whiskey Rebellion. How do you account for the differences in approach, if any?

ACTIVITIES

1. **Cartoon:** Ask the students to draw a cartoon on putting down the Whiskey Rebellion. Begin the assignment by asking the students questions such as the following: Was the federal government justified in cracking down on the farmers of western Pennsylvania who were evading the excise tax? Was sending U.S. troops into western Pennsylvania like "killing a spider with an axe"? Was the Whiskey Rebellion really "much ado about nothing"?

2. **Roundtable:** Have several students conduct a roundtable discussion of Hamilton's financial plans. The leader outlines the plans, serves as moderator, and then summarizes the discussion. Other members impersonate a small farmer, a bondholder, a business owner, a ship owner, a loose constructionist, and a strict constructionist. Questions from the floor should follow the presentation.

3. **Debate:** Resolved: That the Congress charter a First Bank of the United States.

4. **Letters:** Ask the members of the class to imagine that they are living during Washington's administration and that they are writing to their member of Congress either to vote for or against Hamilton's proposed national bank. To secure a variety of reactions, let each student choose one of the following roles: a rich merchant, a poor cobbler, a farmer, a debtor, a bridge builder, a ship owner, etc.

5. **Speech:** Have a student make a speech such as Hamilton might have made in defense of the bank. Let a second pupil make a reply such as Madison (Jefferson's spokesman in the House) might have made. See Commager's *Documents*, nos. 93 and 94, for the arguments of Hamilton and Jefferson.

6. **Role-playing:** Let the students impersonate a group of Americans discussing Hamilton's financial plans in the village hall. Ask the students to express the views of a farmer deeply in debt, a veteran of the American Revolution, a banker, a housewife, a widow who owns government bonds, etc.

7. **Individual reports:** Assign a student to investigate and report to the class on the attitude of the ordinary citizen toward taxes and tax evasion during the following periods of American history:

The period of salutary neglect
The years immediately preceding the American Revolution
The Articles of Confederation
The administration of George Washington

8. **Political rally:** Have one student represent Hamilton and another Jefferson at an imaginary political rally dealing with the assumption of the states' debts. After the speakers have concluded their debate, the audience (the entire class) should ask questions. The teacher should then call for a summary.

9. **Role-playing – newspaper interviews:** Assign two or three articulate students to play the roles of reporters for the *Jefferson Journal* or the *Hamilton Herald*. Let them interview pupils assigned the roles of farmers, plantation owners, southerners, northerners, westerners, debtors and creditors, regarding the great economic controversies of the day such as Hamilton's financial plans, the purchase of Louisiana, the tariff, internal improvements, etc. The inquiring reporters should ask for not only opinions but for the reasons for holding such viewpoints.

10. **Essays:** Ask the students to write a short essay on "How Alexander Hamilton Built a Strong Economy."

11. **Bulletin board display:** Appoint a committee to prepare a display on various aspects of money, including the four uses of money and various items used as money throughout the ages. The display can be supplemented by students' coin and money collections.

12. **Resource person:** Invite a representative of a bank or loan company to speak to the class on the importance of credit and a good credit rating in today's economy.

13. **Visit to bank:** Send a small group of students to visit a commercial bank to become informed about its various services. Bring back samples of deposit slips, withdrawal slips, loan applications, and brochures for use in class. For use in class discussion of the visit, the group might also prepare a table listing the services of a commercial bank and the legal conditions it must meet.

14. **Filmstrip:** *A New Nation: The Struggle to Survive, 1789–1815* (1982). Part One covers the Genet Affair, the Whiskey Rebellion, the cabinet feuds between Jefferson and Hamilton. Part Two covers 1794–1815 and takes up the Jay Treaty, the Alien and Sedition Acts, Jefferson's presidency, the Louisiana Purchase, and the War of 1812. (Color, 2 filmstrips, 2 cassettes, teacher's guide; Benchmark)

15. **Film:** Show *Alexander Hamilton* to stress the role of Hamilton as a member of Washington's Cabinet and as the author of his financial plans. (20 min.; Encyclopedia Brittannica.)

16. **Meet the press:** Select an articulate, well-informed student to represent Hamilton at a meet-the-press session in which several other members of the class serve as reporters. After the role-playing has ended, a lively general class discussion should follow.

17. **Mock campaign:** Divide the class into Federalists and Republicans and have them conduct the campaign of 1800. Besides speeches and rallies, the students might prepare political posters, cartoons, slogans, and songs.

18. **Booklet:** *Coins and Currency* reviews American money from wampum to Federal Reserve notes and includes photographs of the most important and unusual coins and notes in our history. (Federal Reserve Bank of New York, 24 pp., 1981)

19. **Booklet:** *The Story of Money* examines the evolution of money, touching on topics such as barter, commodity money, early types of gold and silver money, America's colonial experiences with money, and the development of fiat money. (Federal Reserve Bank of New York, 21 pp., 1981)

20. **Film:** *The Curious History of Money* (1973) describes in cartoon style the basic evolution of money from barter to charge cards. (16 mm., 20 min.; Federal Reserve Banks of Cleveland and Boston; free loan)

21. **Sociodrama:** After using a sociodrama to illustrate the difficulties involved in bartering goods, discuss the following:
    (a) How the use of money overcomes the difficulties of barter;
    (b) The role of money in the United States economy;
    (c) Why a nation must have a uniform currency system;
    (d) The monetary system set up by Alexander Hamilton for the United States in 1792.

22. **Analysis of a speech:** Analyze Washington's Farewell Address in the light of economic and international conditions in September 1796. Then analyze the address again in the light of those conditions today. Did Washington provide advice suitable to both periods? Justify your answer.

23. **Problem for analysis:** In the 1980s, the American people are facing fiscal and monetary problems that differ greatly from those faced during the days of the early republic. How would Jefferson and Hamilton probably have reacted to the following proposals widely discussed today?
    (a) A national tax on sales such as a value added tax;
    (b) Reductions in social security benefits and other social benefits;
    (c) Federal aid to education including tuition tax credits;
    (d) Federal takeover of medicaid and welfare payments;
    (e) Highest priority on spending for the buildup of national defense.

Topic 5

The Growth of the U.S. Economy

Economic Facts, Concepts, Principles, or Problems

- Economic growth and how it is measured
- Gross National Product (GNP) and other aggregates
- Social and private capital
- Per capita output

AFTER HE HAD been in office six months, President Washington set out on a tour to see at first hand how the American economy was functioning. Among other things, he found a variety of trades and industries operating in New England, observed that 110 ships and 800 sailors at the port of Marblehead (Massachusetts) were engaged in fishing, and noted that our farm products were being shipped to Europe in large amounts. Americans were boasting of their prosperity, and merchants were predicting that America would find markets for her goods abroad as long as foreign governments did not interfere in our commerce. War in Europe, however, threatened to change the economic picture. The undeclared naval war with France (1798 to 1800), the activities of the Barbary pirates, and the resumption of war between Britain and France in 1803 posed problems. At home, political parties had formed. Hamilton's Federalists represented commerce, manufacturing, and the financial interests; Jefferson's Republicans represented the farmers and the debtors. Then, as now, there were important economic differences between political parties.

Today, of course, the picture is more complex. Two members of the same party may have economic views that are poles apart. Eighteen-year-olds now have the right to vote. To be adequately prepared for this responsibility students should not only know the economic policies of the candidates but understand the implications of those policies. They should be able to apply the analytical tools of economics to the various campaign platforms and promises.

The importance of trade was well illustrated by the effects of Jefferson's embargo. The embargo was an attempt to use economics as a political and diplomatic weapon. Since World War II we have seen occasions when the United States banned trade with Communist China and placed strict controls on trade with other Communist nations. An examination of such actions can bring to light many basic economic facts and principles. For example, who *really* pays the price? Is an embargo wise? Fair? Effective? It might be interesting to have the class compare the OPEC (Organization of Petroleum Exporting Countries) oil embargo of 1973–74 with Jefferson's embargo.

Jefferson's embargo resulted in an 80 percent decline in our trade, and American merchants protested while Britain still refused to yield to U.S. demands. (Actually, the embargo was hurting the British economy, but by the time Britain decided to accede to American demands it was too late to stop the war that was about to break out between the two nations.) The economic effects of war might be studied in some detail, using various wars throughout our history as examples.

The War of 1812 did help to speed up the development of industry in the United States, for the country was forced to build its own factories because the war prevented normal trade with Europe. After the war, there was a feeling of unity in the United States, and a concern for economic growth. A protective tariff was placed upon European manufactures, and tariffs have been a source of conflict ever since. A second Bank of the United States was established, and Henry Clay proposed that we build roads and canals to unite all sections of the country and facilitate the flow of goods.

The importance of **capital goods** (e.g. machines, factories, tools) can be illustrated here, for they are needed to produce other goods and services. In addition to privately owned capital goods, such as a General Motors plant, we need **social capital** (sometimes called social overhead capital).[1] Social capital refers to such things as roads, bridges, ports, and communication and transportation facilities that are publicly owned. They are necessities, but because they are rarely profitable

1. The term **infrastructure** is sometimes used to refer to the type of capital items we have listed as being social capital, i.e., publicly owned. Infrastructure is really a somewhat broader term, however, for it includes privately owned railroads, communication facilities, and the like, as well as those which are publicly owned.

enterprises they must often be provided by government. There has always been disagreement about what should be privately owned and what should be operated by government.

The topic of **growth** is a vital one, and it has become controversial. A nation is growing economically when it produces more goods and services each year, when business expands, and when job opportunities increase. Some have opposed growth or growth in particular sections of the economy on the ground that growth brings the problem of pollution or the undue depletion of natural resources. Most economists would argue, however, that a growing economy can help to give us the resources needed to cope with such problems as environmental decay and poverty.

Everyone should understand the meaning of GNP (**Gross National Product**), the most commonly used measure of a nation's economic performance. The GNP indicates, usually in terms of current dollars, the money value of all the final products (goods and services) produced during the year. Because prices change, however, the GNP is often adjusted and expressed in "constant dollars" in order not to confuse the effects of a change in prices with a real change in the amounts actually produced. The Department of Commerce, which estimates the GNP, makes a series of detailed calculations that result in a kind of price index called the **implicit GNP deflator.**

In 1982 the GNP deflator was 207. Since, for this index 1972 = 100, the figure of 207 indicated that prices in general were about double their 1972 level. The GNP before adjustment for prices, was $3.06 trillion in early 1982, as compared with $1.19 trillion in 1972—or about 2.6 times greater. But most of this increase was the result of higher prices, as is shown by the following calculation. Divide the 1982 GNP in current dollars ($3.06 trillion) by the GNP deflator for that year (207), and multiply the result by 100. This gives a **constant-dollar** GNP of $1.48 trillion. In other words, $1.48 trillion is what the GNP would have been in 1982 if prices had not risen since 1972. Now we have a more accurate picture of the growth of the national output, for *real* output in 1982 was only 1.24 times the 1972 figure, not about 2.6 times. GNP figures—dollar amounts and percent changes—are often cited in newspapers and magazines, and one must be careful to notice whether the figures cited are given in current or in constant prices.

Do not confuse the GNP deflator with the **Consumer Price Index (CPI).** The latter is an index of the prices of goods and services purchased by typical urban households;[2] the former covers all items counted in the GNP, which includes purchases by consumers plus those made by business, nonprofit organizations, government at all levels, and also net exports. Furthermore, the two indexes do not always have the same base period. In 1983 the CPI had 1967 as the base year, while the GNP deflator had 1972.

There is still another refinement that ought to be made besides adjusting for price change when growth in a nation's GNP is being measured. That refinement is to adjust for changes—usually increases—in population. Should, for example, population grow as fast as GNP, no growth in the nation's level of living would occur, because no one's share of the goods and services being produced could—on average—increase. Adjusting for population change helps one to see whether GNP is increasing *fast enough* to improve the level of living and also helps to give truer results when comparisons of economic progress among countries are made.

Our previously calculated figures showed that real GNP increased 24 percent between 1972 and 1982. Population in that period rose about 11 percent. These figures imply that **per capita GNP** increased some 13 percent. That is, 11 percent of GNP growth went to "feed more mouths," so to speak, and 13 percent went to improve the average individual's level of living. From the 13 percent it can further be calculated that the average American's level of living improved about 1¼ percent a year from 1972 to 1982.

If time permits, the class can take up the study of the other aggregates associated with the calculations made to arrive at GNP or per capita GNP. These include Net National Product (NNP), National Income (NI), Personal Income (PI), and Disposable Personal Income (DPI). The Net National Product is simply GNP minus the value of capital goods that have fully depreciated, become obsolete, or been destroyed. This calculation subtracts from current output the capital goods being produced in order to replace those no longer useful; it gives us a measure of the value of new additions to the stock of capital goods plus those goods and services available for consumption. The National Income figure is a measure of the amounts paid to the factors of production (land, labor, and capital goods) that have been employed to produce the GNP. It is the sum of corporate profits, the income of noncorporate business, wages and salaries, rents, and interest payments (excluding interest on government debt). In a sense, the NI tells us what a

2. A CPI that stands at 295 today, for example, indicates that it now costs about $295 to purchase the same amount of goods and services that one could obtain for $100 in 1967. If the CPI is rising faster than your money income, your real income is actually falling because you can buy fewer goods and services with it. (The foregoing assumes that you are a "typical" urban consumer and normally buy the kinds and amounts of goods and services priced in the CPI.)

nation pays out to itself to produce the GNP.[3] Personal income is a measure of the current income received by people, regardless of the source of that income. Thus, in addition to earned income (such as wages, salaries, interest, rents received, etc.) PI includes **transfer payments** – unemployment compensation, old age benefits, relief payments, financial aid to veterans, and the like. Transfer payments are not included in the NI because they do not represent payments that add to the nation's output of goods and services; they are simply transfers of earnings from one pocket to another, so to speak. Disposable Personal Income tells us how much income people actually have available to spend or to save. It is the amount people have left after they have paid social security taxes, personal income taxes, estate, gift, and personal property taxes, and certain fees paid to governments.

Each of the aggregates that is part of the GNP accounts has its uses, and each is usually expressed in current dollars. (For further information, see any standard introductory college textbook on the principles of economics.) A great many of these aggregates can be deflated in a manner similar to that used to deflate the GNP.[4]

Some important prerequisites that enable sustained economic growth to take place include political stability, a unified system of money and banking, the wise use of natural resources, technological progress, education, a willingness to work and to produce, and freedom of trade and commerce. Most countries want economic growth in order to provide their people with a higher level of living and to attain or maintain economic strength. Most economists approve of economic growth, for they believe it means more jobs, a greater amount and variety of goods and services, and more resources with which to combat problems such as poverty, slum conditions, inadequate transportation, and pollution. There is disagreement, however, over what the proper rate of growth is for particular countries and how that growth should be achieved. At one end of the spectrum, some Americans believe that an adequate growth rate can be achieved with a minimum amount of government interference in the economy; at the other end some feel that the government has an obligation to provide direction – even control.

DISCUSSION QUESTIONS

Economic concepts, ideas, etc., that might be brought up in answering the questions are printed in **heavy type** (boldface).

1. Why did President Jefferson declare an embargo cutting off trade with Europe, even though a flourishing trade was vital to the American economy?
   Economics as a political weapon; importance of trade.
   (a) Why did the embargo cause prices of certain commodities in the U.S. to change?
   Supply and demand; imports and exports; foreign and domestic markets.
   (b) Why were many important people opposed to Jefferson's embargo and "Mr. Madison's War" (the War of 1812)?
   Impact of the embargo on various sectors of the economy.

2. How did the War of 1812 affect different regions of the United States?
   (a) Why were the people west of the Alleghenies more interested in territorial expansion than the people of New England before the War of 1812?
   (b) Why did the majority of the people of the South and the West favor the war?
   (c) Why did New England oppose it? What effect did it have on the New England economy?
   Agriculture vs. commercial and manufacturing interests; economic effects of war; industrial development.

3. What is meant by "social capital"?
   (a) What are some of the things that you have used, seen, or read about which could be called social capital?
   (b) Explain why each item you mentioned is not usually privately owned.

4. At national Democratic conventions orators often refer to the party's "greats," starting with Jefferson or Jackson.
   (a) On what economic issues did the leading political parties differ a century ago?
   (b) On what economic issues do they differ today?
   (c) Why is it so important that teenagers be informed on economic issues today?

3. Unfortunately, the term National Income is sometimes carelessly used as a synonym for GNP. However, NI will always be a smaller figure than GNP because of (1) the deductions made from GNP to arrive at NNP, and (2) some adjustments that are made to NNP to arrive at NI.
4. Use of the concept called Gross Domestic Product, or GDP, is becoming more common. GDP is a measure of the market value of final goods and services produced within a country and excludes international flows of income.

Conflicting interests of various economic groups; government's role in the economy; monetary and fiscal policies; trade policies; policies toward labor and management.

5. Economists speak of the GNP and its "cousins" – NNP, NI, PI, and DPI.

   (a) What is measured by a country's Gross National Product (GNP)?

   (b) Why are economists so interested in the size of the GNP?
   Economic growth and development; measuring economic performance.

   (c) Why must the GNP be expressed in *constant* as well as *current* dollars?
   Real growth; inflation.

   (d) What do NNP, NI, PI, and DPI measure? Why are they useful?

6. What is meant by per capita output?
   Output per person; economic growth and population.

   (a) How did Eli Whitney's cotton gin increase per capita output?
   Technological innovations and increased output per worker per unit of time.

   (b) Explain the connection between productivity and per capita output.
   Output per worker-hour; productivity and economic growth.

7. Compare the effects of the War of 1812 with those of the American Revolution on American industry.

   (a) How did the British attempt to regain the American market after the War of 1812?

   (b) How did the United States attempt to meet this challenge?
   Economic self-sufficiency; internal economic integration; trade; protectionism.

8. Explain the main features of Henry Clay's American System.
   Economic self-sufficiency; tariffs; social capital; internal economic integration.

   (a) How was the American System expected to hasten our economic growth?

   (b) How would you evaluate the American System?

9. What is meant by "economic growth"?

   (a) How is economic growth measured?
   GNP, NNP, NI, PI, DPI; per capita GNP; constant dollars; real growth.

   (b) Why does every nation want rapid economic growth?
   Standards of living; job opportunities; economic strength; use of increased resources to combat economic ills.

10. What economic, political, and social conditions are needed if a country is to enjoy rapid and sustained economic growth?

    (a) How did the federal government try to encourage economic growth after the War of 1812?

    (b) How does it try to encourage growth today?

11. (a) Why was the United States interested in buying the Louisiana Territory? Why was Napoleon willing to sell?
    Economic self-sufficiency; international trade; opportunity costs.

    (b) What was the effect of the purchase of Louisiana on the size of the United States? Party politics? Agriculture? Relations with France?

    (c) What economic advantages to the United States did Lewis cite in his report to President Jefferson after the Lewis and Clark expedition?
    Productive resources; economic growth.

12. (a) After the War of 1812, what part did government play in the expansion of the American economy?
    Internal improvements.

    (b) At what levels of government was assistance provided?
    Federal, state, and local.

13. Compare the OPEC oil embargo of 1973–74 with Jefferson's embargo as to (a) purpose, and (b) effectiveness.

14. Both GDP and GNP are used to measure the amount of everything produced in a given country during a given period of time. How do they differ?

ACTIVITIES

1. **News story:** Write an account of the Louisiana Purchase for a local newspaper in New England. Stress the economic benefits that the nation, including New England, will derive from the purchase.

2. **Editorials:** Write brief contrasting editorials on the embargo for a New England Federalist newspaper and for a Virginia paper favorable to Jefferson.

3. **Panel discussion:** Appoint a panel of three students and a moderator to study the War of 1812. Assign the first student to investigate the causes, the second the state of the

American economy during the war, and the third the economic results of the war. After the panelists have given their findings, ask the moderator to lead a discussion on the wisdom of the embargo and the declaration of war.

4. **Debate:** Resolved: That internal improvements be undertaken and paid for by the Federal government.

5. **Dramatization:** Plan a class dramatization of the highlights of the contribution of Eli Whitney to the mass production of guns. Assign a committee to research the nature of standardization of parts as well as mass production and its economic advantages before the class writes the script.

6. **Inquiry using relief map:** With the use of a relief map of the United States, have the class discuss the geographic location of key industries in the first half of the nineteenth century. Factors mentioned should include transportation facilities, access to raw materials, markets, water supply, power, available labor, climate, etc. Students should check with an economic history book to see whether or not their analyses were correct.

7. **Drawings or models of early inventions:** Have students interested in drawing or making things construct models of early inventions. A display can be set up, and the model makers can be given an opportunity to explain how the inventions worked and contributed to our economy.

8. **Filming a field trip:** Suggest the use of a home movie or TV camera to film a field trip to a place of historic interest or to a local factory. Recording the event on film or videotape enhances the benefits of a field trip by extending the experience to other classes. The filming also records highlights for later discussion in class.

9. **Ideas of early economists:** Using Robert L. Heilbroner's *The Wordly Philosophers* as a source, have selected students deliver short reports on the contributions of leading early economists (Adam Smith, David Ricardo, Thomas Malthus, and John Stuart Mill) on the development of the main concepts of capitalism (private property, individual initiative, the profit system, and competition).

10. **Graphs:** Consult the statistical appendix to the Council of Economic Advisers' annual *Economic Report to the President* or any other available source for the latest figures on the GNP. Using these figures, construct a pie chart showing the percentage of total annual expenditures accounted for by consumer spending, business spending, and government spending. Compare the GNP for the current year with the GNP of previous years in *constant* dollars by constructing a line graph, using intervals of 5 or 10 years. The line graph will indicate the country's economic growth.

11. **Film:** Use a film such as *Flatboatmen of the Frontier* to show how early settlers in Ohio depended on water transportation. (11 min.; *Encyclopedia Britannica*)

12. **Graph:** Using 10-year intervals, beginning with the first census – that of 1790 – construct a bar or line graph showing the growth of our total population and the growth of GNP, 1790–1860. Probably the most convenient source of the data is the latest edition of the *Statistical Abstract of the United States*, published by the Bureau of the Census.

13. **Special research topics:** Ask a student to investigate one of the following topics:

    Gallatin's policy as Secretary of the Treasury
    Clay's American System
    Early turnpikes (toll roads)
    The building of the Erie Canal

14. **Letters:** Have the students consult their textbooks and reference books, and then write personal letters to friends describing one of the following imaginary experiences:

    A trip west on the Cumberland Road
    A trip west on the Erie Canal
    A visit to an early New England mill town
    A visit to a Southern plantation

15. **Map of early transportation routes** (1816–40): On an outline map of the United States, mark the water and land routes to the West. Include the Old Wilderness Road, Cumberland Road, Forbes Road, Genesee Road, Oregon Trail, Santa Fe Trail, Erie Canal. Consult *Historical Atlas of the United States.*

16. **Headlines:** Explain how each of the following headlines indicates that some Federalist ideas survived the existence of the Federalist Party.

    Second Bank of United States Chartered
    First Protective Tariff Passed
    National Road Under Construction at Federal Expense

17. **Cartoons:** Draw a cartoon about Clay's American System, illustrating how the three sections (North, South, West), and the nation as a whole, were expected to benefit from Clay's ideas. Use arrows to indicate the flow of trade from section to section if a map is part of your cartoon.

18. **Oral reports:** Assign oral reports on the following topics:

    Economic conditions in the United States in 1816
    Clay's American System
    The canal-building era
    Internal improvements
    John Jacob Astor
    John Marshall's "economic" court decisions
    Federalist ideas that survived the Federalist Party
    Early American inventions
    The Hartford Convention

19. **Tape recording:** Have students prepare a tape recording on "The Economic Growth of the Early Republic," which can later be played back to the class for review. The material heard might include Hamilton pleased with the success of his financial plans, Lewis and Clark on the possibilities of the Louisiana Territory, a summary of the Census Report of 1810, a description of the new nationalism after

the War of 1812, the voices of travelers along the National Road or on the Erie Canal.

20. **Then-now:** How many of the following "persistent economic questions" of the early republic are with us yet? Why?
    - Should the federal government raise or lower tariff rates?
    - What kinds of excise taxes should the federal government levy?
    - What action should the United States take with respect to the national debt?
    - Should the federal government build national roads with federal funds?

21. **Now-then:** Have the students investigate a current national economic controversy dealing with taxes. tariffs, federal expenditures for the general welfare, etc., by reading newspapers or magazines, listening to radio, or viewing television programs. Then assign the class the task of finding earlier counterparts to the modern problems as presented in their text or other reference materials.

22. **Map:** Ask the students to draw the boundaries of the Louisiana Purchase and to indicate the route of the Lewis and Clark expedition on an outline map of the United States.

23. **Pictorial history:** Students can visualize and often obtain deeper insights into American history via paintings, drawings, and photographs. A number of pictorial histories are particularly helpful for this purpose, e.g.:
    - Mitchell Wilson, *American Science and Invention: A Pictorial History* (Simon and Schuster)
    - James Truslow Adams, *Album of American History*, Vols. 1 and 2 (Scribner)
    - Ralph H. Gabriel, *Pageant of America*, Vols. 6 and 8 (Yale University Press)
    - Herbert Butterfield, *The American Past* (Simon and Schuster)

24. **Film:** *Industrial Revolution: Beginnings in the United States* describes industrial progress from the first thread mill in 1791 to the expansion of the railroads. It illustrates how industrialization brought about the rise of big cities and the decline of the agricultural economy. (Color, 23 min., guide; Encyclopedia Britannica)

25. **Game:** "ECON/GNP." This computer-assisted game simulates the U.S. economy. Decisions are made which affect the productive capacity of the country. (Time: 1–2 hours; no. of players: 2–10; Digital Equipment Corporation)

26. **Game:** "National Economy." The purpose of the game is to aid understanding of the relationships between growth, inflation, national income, and unemployment. It also shows how activity in different kinds of industries can have different effects on the economy. Participants role-play representatives of the business community on an economic policy committee, separated into three industrial groups producing staple consumer products, luxury goods, and producer goods. They must decide on the yearly level of investment in each of these sectors. Their objectives are to maintain full employment without inflation and to promote orderly growth in the economy. (Time: 2–5 hours; teams of six; Didactic Systems, Inc.)

27. **Film:** *Saga of the Erie Canal* recreates the period during which the Erie Canal was constructed. (Color, 11 min.; Coronet Films)

28. **Film:** *America: The Land* uses letters, diaries, town records, and other sources to recreate the lives of pioneers who made their way through the Cumberland Gap. (Color, 24 min.; Xerox)

29. **Film:** *Frontier Experience* depicts the dangers, loneliness, and hardships of pioneer life on the frontier. (Color, 25 min.; Learning Corporation of America)

30. **Problem for analysis:** In 1825 the completion of the Erie Canal in New York State, which linked the Hudson River at Albany to Lake Erie at Buffalo, reduced the cost of transportation from $100 per ton to $8 per ton. Soon after, productivity (output per worker-hour) began to rise in manufacturing, too.
    (a) Why do specialization and division of labor cause production per worker to rise?
    (b) What is the relationship between the size of the market and specialization?
    (c) How does specialization lead to the development of new technology?
    (d) Is specialization a basic requirement for economic growth? Explain your answer.

Topic 6

The Age of Jackson

Economic Facts, Concepts, Principles, or Problems

- The Second Bank of the United States
- Central banking
- Functions of banks and central banks
- Economic impact of *Gibbons* v. *Ogden* and the Dartmouth College cases

FEW AMERICAN PRESIDENTS have been as colorful as Andrew Jackson. He was the first president to be born in poverty. At the age of 14 he fought the British (receiving a nasty scalp wound from a British officer's sword). He killed "the best pistol shot in Tennessee" (Charles Dickinson) for making insulting remarks about Mrs. Jackson. He tackled economic issues with the same bullish determination that typified his approach to personal feuds, warfare, and political conflicts.

Between the end of the War of 1812 and Jackson's election to the presidency in 1828, greater specialization developed in the United States. The various regions concentrated on producing those things for which they were best suited, and the use of steamboats on rivers as well as the building of canals and roads helped to increase trade among the regions. The importance of these developments is shown by the fact that the Erie Canal caused freight rates to drop to 5 percent of their former levels, that within twelve years the canal had earned enough to repay the $7 million cost of building it,[1] and that Mississippi steamboats reached their destinations four times faster than could barges propelled by hand or animal power.

Judicial developments were also important. In 1824 the Supreme Court nullified the monopoly that New York State had given to one company to operate steamboats on New York waterways (*Gibbons* v. *Ogden*). Thus, competition was encouraged by federal court action. Earlier, in the Dartmouth College case of 1819, the Supreme Court declared that a private charter is a contract that cannot be changed by a state. This proved to be a boon to business, for it would mean that the charters of private corporations were protected by the **contract clause** of the Constitution. Thus, state control over corporations was limited, which encouraged business growth but also led to abuses of corporate privileges. From this point on, the study of U.S. history demands close attention to the actions of the state and federal courts to see how their decisions affected the economy.

One value question that arises here, of course, is the extent to which government can or should control private business. Another is the question of the proper role of the federal government in providing funds for various improvements in public facilities. Jackson's veto of the Maysville Road bill in 1831 should make a good case study. (Tantalizing question: How does one explain the veto in view of Jackson's general support of internal improvements and his approval of the Cumberland Road bill just a few days later?)

Two of the most exciting events of Jackson's administration involved the tariff laws of 1828 and 1832, and the chartering of the Second Bank of the United States. The students should understand why the South so bitterly opposed a tariff (Jackson's threat to spread blood all over South Carolina, and congressional modifications of the tariff prevented a civil war), and why many switched sides over the issue. (What economic factors caused Northerners who earlier opposed tariffs to change position and support the levies in the 1830s, while Southerners switched from approval to disapproval? And in more recent times, why did some industries and labor organizations that strongly supported free trade immediately after World War II favor trade restrictions in the 1980s? Which side is "right" in each case?)[2]

TO UNDERSTAND JACKSON'S "war" with the Second Bank, students must know about the functions of banks in general and the role of **central banks** in particular. A brief history of banking will help. It should include the development of paper money (goldsmith's notes, currency issued by banks early in this country's history, and so on), the functions of banks as safekeepers of valuables and as lenders of money, the use of checks,

1. Note, however, that many other canal-building projects were dismal failures.

2. Be sure that all views are fairly represented in these important controversies.

and the importance of reserves. It is up to the teacher to decide whether or not the class is ready to learn how banks create money through bank credit expansion and how the Federal Reserve System controls this power of the commercial banking system.[3] Whether or not they know how it is done, however, the students should realize that banks do create money, that checks serve as money in our economy, that "checkbook money" (demand deposits) makes up about three-fourths and currency about one-fourth of the money supply in its most narrow sense (M-1), and that the money supply can expand and contract.

The powers and functions of the Federal Reserve System can be compared with those of the Second Bank of the United States. Some of the criticisms leveled at the Second Bank were very similar to criticisms of the Fed that we hear today. Some charged that the Second Bank kept interest rates too high, and the same charges are made today whenever the Fed takes actions that have the effect of raising interest rates. Some did not like the idea that so powerful an institution as the Second Bank was not under direct control of the administration, and there are some today who feel that the Federal Reserve should not be independent of the presidency.

When Jackson vetoed the bill to recharter the Second Bank of the United States, its director, Nicholas Biddle, called in loans from smaller banks. These banks, in turn, had to call in loans they had extended. Unable to raise the money quickly, many businesses that had borrowed from banks failed, and the country went into a recession known as Biddle's Panic (1833). When one group threatened to camp in the Capitol until the bank was rechartered, Jackson warned them: ". . . I will hang you . . . on gallows higher than Haman." That ended the protest, the Second Bank of the United States went out of existence, and the nation's banking system started to head for chaos. With no central bank in control, many banks extended loans too freely and issued too much paper money. People lost confidence in banks and in paper money, and another panic occurred in 1837. That era of "wildcat banking" clearly illustrates the importance of a stable system of money and banks.[4]

DISCUSSION QUESTIONS

Economic concepts, ideas, etc., that might be brought up in answering the questions are printed in **heavy type** (boldface).

1. Why is the protective tariff often a "local issue"?
   Free trade vs. protection; effects of tariffs; effects of foreign competition.
   (a) Why did Southern support for a protective tariff in 1816 turn to strong opposition in 1828 and after?
   (b) How was the tariff controversy of 1832–33 finally settled? Was this a wise solution?

2. What role do banks perform in our economy?
   Money and credit; savings; economic growth; specialization and exchange; trade.
   (a) Why was there little need for banks in early frontier days? Why did the need arise later?
   (b) In what way is banking a business enterprise?
   (c) How does a commercial bank differ from a savings bank?
   Use of checks; creation of money by banks; savings; safekeeping.

3. Compare the Second Bank of the United States (1816–36) with the first (1791–1811).
   Central banking; government and the banking system; monetary stability.

4. The Second Bank of the United States has been called "our first central bank."
   (a) What is a central bank? Why are central banks considered to be necessary?
   Money and credit; monetary stability; banks and businesses.
   (b) How do central banks control other banks?
   Bank reserves; credit expansion and contraction; interest rate changes.

3. Consult a standard college textbook on the principles of economics (sections on money, credit, and banking) for an explanation of the money-creating process and the role of the "Fed" as the nation's central bank. See George R. Taylor, *Jackson vs. Biddle's Bank: The Struggle Over the Second Bank of the United States*, 2nd ed. (Lexington, Mass.: Heath, 1972), for a detailed account of that bank controversy and its implications.

4. Note, however, that the banking crisis was not the only cause of the panic of 1837 and the ensuing depression. The price of cotton in the London market dropped, making it hard for Southern planters to meet their expenses and to repay loans. Land values dropped. Grain crops failed because of poor weather, affecting the railroad and shipping industries as well as the farmers. Railroad building had declined in 1836, and money invested in western lands and urban real estate had failed to yield quick profits.

(c) Should central banks have the power to control the operations of local banks? Explain.
Regulation of money supply.

5. Did Jackson's decision to abolish the Second Bank of the United States retard or encourage American economic development? Explain your answer.
Role of central banks; effects of expansion and contraction of the money supply on the economy; importance of uniform and stable currency.

6. How is it possible for a bank to use its deposits as a means of creating credit for the use of borrowers?
Money creation through bank credit expansion.

(a) Why do loans and deposits of the banking system expand and contract together?

(b) What are the limits of the lending power of the banking system?
Role of legal reserve requirements.

7. Did the First and Second Banks of the United States have a healthy influence on American financial development? Explain your answer.
Central banking; money and credit expansion; effects of overissuing paper notes.

8. What is meant by a "financial panic"?
Money, banking, credit and their effects upon the economy; business recessions and depressions.

(a) Why were such panics likely to follow periods of speculation and easy credit?

(b) What caused the Panic of 1837? What were the outcomes?

9. Explain the roles of river steamboats, the Erie Canal, and the railroads in the economic growth of the United States between the War of 1812 and the end of the Age of Jackson.
Technology; importance of transportation and communications; specialization and exchange; national economic unification.

10. The decisions of Supreme Court Justice John Marshall reflected the nationalism of the period, and many dealt with economic issues. What were the economic effects of *McCulloch* v. *Maryland; Gibbons* v. *Ogden;* Dartmouth College case?
Regulation of banking; state and federal controls; interstate commerce; monopoly; corporations.

11. The U.S. government has given "grants-in-aid" to states for highway construction and other purposes. Is it a proper function of the federal government to provide funds for various intrastate improvements? Justify your answer.
Social capital; government's role in the economy.

12. Explain the popularity of federal and state "users' fees" for the maintenance of highways.

13. Why has the Age of Jackson been called "the golden age of the entrepreneur and small capitalist"?
Role of the entrepreneur; large vs. small business.

14. "From the first days of the republic the role of government in the economy has been a subject of public debate." Explain.

15. Decisions of state and federal courts can profoundly affect the economy.

(a) In what way can court decisions affect the economy?

(b) To what extent should the courts have the power to affect the economy? Defend your answer.

16. Andrew Jackson generally supported internal improvements paid for by the national government. Yet, a few days after vetoing the Maysville Road he approved the Cumberland Road bill. How can this be explained?
Government's role in the economy; purposes of taxation; political vs. economic motives; who pays for improvements and who benefits.

17. (a) What region of the United States was beginning to be industrialized in the Jacksonian era? Why?
Geographical advantages; productive resources; capital accumulation from shipping; entrepreneurship.

(b) How did the rise of the factory system, the increase in immigration, and new transportation systems such as the railroads and canals affect economic activity in some cities and towns?

(c) How was the appearance of the city changed by industrialization?

(d) What economic and social problems developed as a result of industrialization?
Overcrowding; inadequate infrastructure; health problems; crime.

18. The Age of Jackson witnessed the beginnings of the industrial revolution in America.

(a) How did industrialization affect agriculture?

(b) Why did skilled and unskilled workers try to form unions in the Age of Jackson?

(c) What difficulties did the early unions encounter?

(d) What economic, social, and geographic factors made possible the rapid rise of textile factories in New England?

(e) Why did the South experience fewer economic changes than the other sections between 1825 and 1850?

ACTIVITIES

1. **Motivation for study of banking:** Build interest in banking by reading excerpts to the class from *Put That Dust Back* by Bruce G. Mortimer. This book contains a collection of interesting, often humorous, anecdotes and stories about banks and banking.

2. **Materials on banking:** Write to the publications or research department of the Federal Reserve Bank of your district for publications on money and banking useful to your classes. Two of the best are:

   Keeping Our Money Healthy, Federal Reserve Bank of New York.
   The Story of Checks, Federal Reserve Bank of New York.

3. **Individual research projects:** Ask individual students to do research and report to the class on one of the following reform movements:

   The antislavery movement
   "Ideal" or "utopian" communities
   Early trade unions
   Waltham System
   Opposition to child labor in nineteenth century factories

4. **Debate:** Resolved: That rechartering the Second Bank of the United States is essential to the economic development of the nation.

5. **Reports on the history of banking in the United States:** Have individual students prepare oral or written reports on topics dealing with the history of banking:

   Hamilton's United States Bank: organization, purposes, accomplishments
   Andrew Jackson and the Second United States Bank
   Nicholas Biddle: his personality and accomplishments
   Wildcat banking: the need for banking controls
   The independent Treasury system: its organization and accomplishments

6. **Speaker:** Invite a local banker to speak to your class on the banking business, especially the loan function and check-clearing features, and the banker's view of the role of banks in the American economy.

7. **Panel discussion:** Ask a small committee to read to the class and discuss the application of the provisions of Article I, Section 8, Clause 3, of the Constitution of the United States, which gives Congress the power to regulate interstate commerce. Points for panel discussion should include conditions that pertained under the Articles of Confederation, reasons for the inclusion of the clause in the powers of Congress, influence on the *Gibbons* v. *Ogden* case, and the clause's importance today.

8. **Role-playing:** Imagine that the only bank in a small town has announced that it will liquidate its assets and close down in six months. A committee of townspeople has been formed to induce the bank to stay open. What would each of the following say at the hearing?

   A middle-aged person saving for old age
   A householder who pays by check
   A merchant whose business is seasonal
   A small manufacturer that sells all its products out of town

9. **Panel on banking:** Ask three students to investigate and then expound the policies in regard to the relation of the government to the banks and banking which were advocated by each of the following:

   Alexander Hamilton
   Andrew Jackson
   Martin Van Buren

10. **Dramatization:** Have the students write a skit in which four great American leaders discuss an important economic issue—the extension of the National Road. Select students to impersonate Calhoun, Clay, Marshall, and Jackson.

11. **Cartoons:** Have the class draw cartoons or diagrams on one of the following topics:

    Reasons for the establishment of the First and Second Banks of the United States.
    Why certain groups were opposed to the formation of the First and Second Banks of the United States.
    Andrew Jackson and the Second Bank.
    Why many ordinary Americans supported Jackson in his fight with the Second Bank.

12. **Local economic history:** If you live in a community that existed during the Age of Jackson, your students can prepare an interesting oral or written report on the community's early economic development. As an alternative, a committee, or the entire class, might prepare a booklet on the community's economic beginnings and progress. Consult the local historical society for materials available.

13. **Class newspaper:** Have the students write articles for the *Journal of Economics*, a class newspaper, which discusses the economic issues of the Jacksonian Period. The articles might include: The Maysville Road Veto, The Removal of the Eastern Indians, The Tariff Controversy, Nullification, and Jackson's War on the Second Bank of the United States.

14. **Filmstrip:** *The Evolution of Money and Banking* (1976). U.S. Economy in Action Series: The Role of the Commercial Banking System. Traces the development of money through history to show how our modern credit economy evolved. The creation of money by commercial banks is explained and the history of banking in the United States is discussed. (Color, cassette or record, teacher's guide; Random House/Educational Enrichment Materials)

15. **Game:** "Banking." Through simulation and role-playing participants have a chance to observe, analyze, and solve problems in a specific sector of the economy. The game involves the financial activities and decisions of commercial banks. It illustrates that a bank is both a profit maximizer and an influential factor in stimulating business and encouraging local economic development through its transactions. (Time: 2–5 hours; teams of six; Didactic Systems Inc.)

16. **Film:** *Age of Jackson.* (16 mm., black and white, 29 minutes; National Education Television Film Service)

17. **Filmstrip:** *Early Americans on the High Seas* shows the opening of world markets to American trade and development and the use of clipper ships. (Black and white; Yale University)

18. **Chart:** Have students summarize in chart form the views of Hamilton, Jefferson, and Jackson on the national bank, the tariff, and nullification.

19. **Reports:** Ask the students to present brief oral reports or thumbnail written reports on outstanding personalities of the Jacksonian Era (Calhoun, Benton, Clay, Webster, Biddle, Van Buren, Harrison, Peggy O'Neill (Eaton), and Rachel Jackson). Reference: Carl Fish, *The Rise of the Common Man.*

20. **Film:** *Money: Summing It Up* (1982) tells the story of money and exchange, from bartering to payment by check, and the development of banking. Outlines events in American banking history that led to the organization of the Federal Reserve system. (16 mm, 23 min.; Federal Reserve Banks of Cleveland and Chicago; free loan)

21. **Filmstrip series:** To study the role of women in American economic history, show pertinent parts of the series *Woman in American History* (6 color filmstrips with records or cassettes; Educational Activities, Inc.)

22. **Committee report:** Ask a committee of students to study the past and present roles of young people in our economy. Investigate questions such as the following:
    (a) What were the roles of children and teenagers in the late eighteenth and nineteenth centuries?
    (b) What are their roles today?
    (c) How have those roles changed?
    (d) Why have they changed?
    (e) What problems do young people have today?
    (f) How do these problems resemble or differ from those of yesteryear?
    (g) Can we learn anything from our economic history that might help us try to solve these types of problems? Explain your answer.

23. **Film:** To study railroad building in the United States from 1830 to 1870, show *Life and Times of the Iron Horse.* (16 mm, black and white, 11 min.; McGraw-Hill Textfilms)

24. **Film:** To learn about life on a plantation and the overall social and economic effects of planter domination, show *Plantation System in Southern Life.* (16 mm, color, 11 min.; Coronet Instructional Films)

25. **Problem for analysis:** Every American city and town has reminders of past economic life. Usually the reminder is a factory, a waterfront, or a warehouse. After a class visit to the site, ask your students to research the following questions:
    (a) Who built the facility? How was the money raised (or where did it come from)?
    (b) Why did the enterprise or industry flourish or perish?
    (c) When did a railroad or canal reach the area?
    (d) When, and why, were other local industries established?
    (e) Why did the city or town not spread across a river or railroad before the early twentieth century?
    (f) Why did immigrants settle in the "new town"?

Topic 7

Sectionalism and the Coming of the Civil War

Economic Facts, Concepts, Principles, or Problems

- Discovery of gold
- Inflation
- Economics of slavery
- Economic differences between the sections
- The tariff controversy
- Effects of tariffs

BETWEEN THE END of Jackson's administration and the beginning of the Civil War, many important events occurred in America. During Van Buren's administration, the United States and England nearly went to war over the disputed boundary between Maine and Canada (the question was settled by the Webster-Ashburton Treaty of 1842), and in 1844 they squabbled again over the Oregon Territory. The latter issue was settled by treaty in 1846, with the United States getting part of the territory. Economic considerations played a part in reaching those two agreements, for a lucrative trade had developed between the two countries, and the British had no desire to disrupt it.[1] Victory over Mexico in a war carried on in 1846–48 added more territory to the United States. This and other geographical growth was accompanied by population increases and economic expansion.

The discovery of gold in California had a profound effect on the development of that area and on the nation as a whole. U.S. gold production had been less than $1 million in 1847, but rose to $65 million by 1853. This was a mixed blessing, however, for it helped bring on an **inflation.** The inflation was not too serious, and it probably helped to keep the nation prosperous for a few years. In fact, the period between the end of 1849 and early 1857 was on the whole one of considerable prosperity.

Inflation is a general and sustained rise in prices that affects the entire economy. Students should understand the difference between **money income** (nominal income) and **real income.** Real income refers to the amount of goods and services that can be bought with one's money income. Suppose, for example, that a person had a money income of $100 per week in 1967 and that in 1982 that income was still $100. During that period the Consumer Price Index (CPI) rose from 100.0 to 289.1, however, indicating the person would need to spend $289.10 to buy the same amount of goods and services that could be obtained with $100 in 1967. Since money income remained unchanged, the person's real income dropped sharply. Only someone whose money income goes up at least as fast as prices does not lose buying power during inflation.

The student who works to earn money, who receives an allowance, or who informally shares in the family income can certainly be affected by inflation. Many basic economics textbooks include simple explanations of the sorts of **price indexes** used to measure inflation, and everyone should at least know what prices the indexes cover and how they can be used. For instance, in the example given above, the CPI was used to "deflate" money income to real income. To do so one simply divides one's 1982 money income ($100) by the 1982 CPI (289.1) and multiplies the result by 100. It turns out that money income of $100 in 1982 is the equivalent of about $34.59 compared to the purchasing power of $100 in 1967. More simply expressed, the purchasing power of $1.00 in 1967 had fallen to about 35¢ in 1982.

THERE ARE SEVERAL possible **causes of inflation.** If a nation uses gold or silver for money (or if its paper money is backed by these metals), the discovery of large amounts of gold or silver can cause inflation. That, at least, has been the case in previous history. Modern governments, however, are likely to take steps to offset such an effect. Inflation can also be caused by issuing

1. It is interesting to note how often in history economic relations have led to peace and friendship and how often barriers to trade have helped lead to conflicts.

too much paper money. In general, if the supply of money rises faster than the supply of goods and services, prices will climb.

Germany after World War I provided an extreme example of inflation through expansion of the money supply. The German government printed enormous amounts of paper money and, as a result, prices soared to the point where it took a bushel basket full of money to buy a loaf of bread. This so-called **hyperinflation** almost brought the German economy to a halt until all the old currency was called in and new currency—issued at a much slower rate—was introduced.

Banks can contribute to inflation by extending loans too freely (see previous topic). Labor unions that have obtained wage increases in excess of worker productivity have been blamed for inflation. (If a worker contributes $55 worth of value to a factory's daily production but starts to receive a wage of $60 a day, then the employer will probably need to raise prices to customers to cover the additional $5.) If monopoly practices on the part of business increase and thus reduce competition, that helps prices to go up. The government can cause inflation by increasing its own spending at a time when the economy is already producing at full capacity. Since national output cannot be increased under these conditions, the government must compete with private buyers for the limited supply of goods and services, thus forcing prices upward. That happened in the second half of the 1960s when the government stepped up its spending because of the Vietnam War but did not increase taxes sufficiently to pay for the extra costs. Many economists believe this was the real beginning of the serious inflation that took hold in the 1970s and was still going on in the early 1980s.

The whole question of inflation is controversial because people will disagree on whom to blame, who is most affected, and what should be done to stop inflation. Some economists feel that a mild inflation can even be good. If business has been slack and the rate of growth of the economy has been too low, a modest increase in average prices might help to stimulate business to build more factories, buy more equipment, hire more workers, and produce more goods.

We turn back now to other aspects of American history in the 1850s apart from the consequences of the discovery of gold. The favorable economic situation that followed the finding of the gold was not accompanied by political tranquility. Slavery was becoming a burning issue. The **economics of slavery** is a fascinating subject for study. Was it really profitable to own slaves? Would Southern plantation owners have been better off with free labor? What effect did slavery have on the economy of the South? Of the nation as a whole? Several books are available that address such questions.[2]

By the middle of the nineteenth century, three economic sections had emerged in the United States. The Northeast was dominated by finance and industry, while the South and West were agricultural areas. Creditors were a power in the Northeast, while debtors were influential in the South and West. Creditors would naturally favor sound money or even deflation, while debtors would hope for inflation. To illustrate, go back to our previous calculation in this topic. Note that every $1 loaned out in 1967 and scheduled for repayment in 1982 wound up with a purchasing power of only 35¢ in 1982. This is a decline of almost two-thirds. Many of the people who owned bonds—which are certificates of indebtedness—and those with their money in savings accounts therefore suffered a loss during the period. The interest they received may well have failed to offset the drop in the purchasing power of the repayments of principal they received. The lender's loss was the debtor's gain, for the debtor could pay the loan off in dollars that were worth less than those that were borrowed.

The Northeast differed with the South and West on the question of tariffs, too. The Northeast favored high tariffs to lessen competition from foreign goods, while the South and the West, which were buyers of items manufactured abroad as well as sellers in foreign markets, sought lower tariffs. Many historians believe that the economic differences between the North and South were more important than the slavery question in bringing on the Civil War.

In the decade that preceded the Civil War, much happened to strengthen the North. A process of converting pig iron into steel was developed in 1851. In 1853, the New York Central Railroad was formed by uniting several smaller lines, thus providing an important transportation line between the Northeast and the West. This tied the West to the Northeast economically, for goods could now flow more easily to the Northeast than to the South, and this may have eventually helped the West to decide to side with the Northeast in the Civil War.

Other events favorable to the North occurred besides. Trade with Asia expanded. A trade treaty with

2. For example, see Alfred H. Conrad, *The Economics of Slavery* (Chicago: Aldine, 1964); Eugene Genovese, *The Political Economy of Slavery* (New York: Pantheon, 1965); U. B. Phillips, *American Negro Slavery: A Survey of the Supply, Employment and Control of Negro Labor as Determined by the Plantation Regime* (Baton Rouge: Louisiana State University Press, 1969); Alfred H. Conrad and John R. Meyer, *The Economics of Slavery and Other Studies in Econometric History* (Chicago: Aldine-Atherton, 1972); Robert W. Fogel and Stanley Engerman, *Time on the Cross: The Economics of American Negro Slavery* (Boston: Little, Brown, 1974).

Canada ended the possibility of war with that country. The opening of the Soo canals in 1855, linking Lake Superior and Lake Huron, provided cheap transportation for iron ore from the West. The development of the Marsh harvester in 1858 doubled grain output. Oil was discovered in Pennsylvania in 1859, and gold and silver were found in Colorado and Nevada in that same year.

Between 1850 and 1860 the population of the United States increased by more than 35 percent; much of this increase was accounted for by immigrants, who largely settled in the North and West. All of these economic developments served to give the North an advantage over the South when the war finally broke out.

DISCUSSION QUESTIONS

Economic concepts, ideas, etc., that might be brought up in answering the questions are printed in **heavy type** (boldface).

1. Show how each of the following contributed to bitterness between the North and the South from 1820 to 1860.
   (a) The tariff controversy.
   Effects of tariffs on living costs and trade; free trade vs. protectionism.
   (b) Westward expansion.
   Regional specialization; land as a resource; land policies.
   (c) The antislavery movement.
   Labor; economics of slavery; economic vs. humanitarian motives.

2. Describe the economic differences between the North and the South before 1850.
   Regional specialization; agriculture vs. industry; status of economic development.

3. Why did many Americans of the time consider the Compromise of 1850 to be "the final solution" of the slavery question?

4. Analyze the effects of each of the following developments on the North and the South during the 1850's.
   (a) Continued population growth.
   Size and quality of population in relation to economic development.
   (b) Growth of industrial cities.
   Urban growth; industry; technological developments.
   (c) Railroad construction.
   Transportation; technological developments; costs of shipments.
   (d) Widespread use of the reaper and other farm equipment on northern farms.
   Technology and productivity; production costs; agriculture.

5. During the period 1800–50 the population of the West increased threefold. Discuss (a) two reasons for this remarkable growth and (b) the effect of the growth of the West on three national problems of the period.
   Population; economic growth and development.

6. How did the discovery of gold in California in 1848 affect prices in the United States?
   Inflation; relation between money supply and supply of goods and services.
   (a) How did persistently rising prices (inflation) affect southern slaveholders; debtors; creditors, who held long-term bonds and mortgages; business activity in general?
   (b) If your salary remains constant while prices rise, what happens to your *real* income? Explain your answer.
   Money income and real income; Consumer Price Index; inflation.

7. Discuss the slavery provisions of the original U.S. Constitution.
   (a) Evaluate Calhoun's arguments in defense of slavery.
   (b) Was northern opposition to slavery chiefly on moral grounds? Defend your answer.
   Economics of slavery; labor; economic vs. noneconomic motives.

8. Account for the large increase in the price of slaves in the Southern states before the Civil War.
   Demand and supply; labor as a factor of production.
   (a) Why did the North oppose the admission of new "slave states" into the union?
   (b) Discuss the attitude of each of the following writers toward slavery: William Lloyd Garrison in *The Liberator* (a periodical); Harriet Beecher Stowe in *Uncle Tom's Cabin;* and Hinton Helper in *The Impending Crisis of the South: How to Meet It.*

9. Before the Civil War, economic forces both united and divided the North and the South.
   (a) Discuss two economic differences between the North and the South that aggravated sectionalism in the United States.
   (b) How did these economic differences manifest themselves in politics?

10. Explain how the growth of slavery was related to each of the following: (a) the cotton gin; (b) territorial expansion; (c) the Civil War; (d) the struggle of the blacks in the 1960s for equal civil rights and an end to all forms of discrimination.
Impact of technology on output and profits; land as a resource; land values; labor and labor costs; social and political animosities created by economic exploitation; equal economic opportunity.

11. Review the meaning of "revenue tariff," "protective tariff," and "free trade."
    (a) How was the country divided over the issue of the protective tariff during the Age of Jackson? What were the reasons for this division?
    (b) Summarize the main arguments for and against the protective tariff.

12. Trade has often led to peace and friendship among nations, while trade barriers have sometimes led to suspicion and war. Show how economics was involved in the Webster-Ashburton Treaty of 1842 and in the settlement of the Oregon Question in 1846.

13. The South boasted "Cotton Is King!"
    (a) What factors were responsible for the great increase in cotton production before the Civil War?
    Specialization; productive resources.
    (b) What was the result of this increase on (1) sectionalism, (2) slavery, (3) patterns of land use, and (4) nonslaveholding whites in the South?

14. Explain how the Consumer Price Index can be used to measure the rate of inflation.

15. Explain why inflation is harmful not only to individuals (such as retired persons living on fixed pensions) but to this nation as a whole and other nations as well.
Effects of inflation on cost of living; on production costs; on competitive positions in international trade.

16. What can you and your family do to help curb inflation?
Citizen's role in influencing government policies; wise budgeting of personal income; increasing one's efficiency and productivity.

17. "The greatest economic fact of the 1850s was the development of the northern railroad network."
    (a) Explain why you agree or disagree with this quotation.
    (b) What contributions, if any, did railroads make to sectional conflicts?
    (c) How were the early northern railroads financed?
    Venture capital.

18. Discuss the causes of inflation after the discovery of gold in California; the causes of inflation in the 1970s and early 1980s.
Relationship between growth of money supply and growth of supply of goods and services; high government spending; excessive creation of money; wage increases exceeding productivity gains; monopoly practices; high demand.

19. How did the Reagan administration try to cope with inflation?
Fiscal and monetary policies.

20. The South argued that the "wage slaves" in northern factories were worse off than the black slaves in the South.
    (a) Compare the economic lot of the slaves in the South with that of unskilled workers in the North. Which group was better off? Why?
    (b) Why did nonslaveholding southern whites defend slavery and place political control of the South in the hands of the slaveholding minority?
    Economic rivalry and competition; self-interest; social status.
    (c) What roles did blacks, both in the North and South, play during the Civil War?
    Supported troops; maintained economy on home front.

ACTIVITIES

1. **Editorial:** Have students write an editorial for a northern newspaper of the 1850s, discussing one of the following: the economic costs of slavery, the effects of the Compromise of 1850, or the consequences of the Dred Scott Decision.

2. **Cartoon:** Draw a cartoon condemning slavery on moral or economic grounds.

3. **Cartoon:** Contrast the differences between the plantation South and the industrial North.

4. **Individual research:** Investigate the era of the clipper ship and then prepare an oral report on the American merchant marine during the years 1840–60.

5. **Letter:** Imagine that you are spending a month's vacation on a southern plantation during slavery days. Write a letter to a friend "up North" giving an account of how the work of the plantation was done and how the slaves were treated.

6. **Individual reports:** Select one of the following "sectional

spokesmen" for special study. Prepare an oral report about his views on the great issues of the period.

Daniel Webster	Henry Clay
John C. Calhoun	Stephen Douglas

7. **Table:** The climate, resources, topography, and other geographical characteristics of the North, West, and South affected their political and economic views. In tabular form, indicate the *views* and the *reasons* for these views on each of the following issues for each of the sections:

   The National Bank
   Internal improvements
   The tariff

8. **Dramatization:** Ask students to write a script that stresses the goals of a frontier farmer who is looking forward to national expansion toward the South and West. The script should reflect isolationism, national pride, "manifest destiny," and the movement westward of cotton as well as people.

9. **Roundtable:** Divide the class into small committees to investigate topics such as the abolitionists, the tariff controversy, Jackson and the Bank, etc. Have each committee select a leader who will participate in a roundtable entitled "Sectional Strife Splits the Nation." The audience (entire class) should be encouraged to participate in the questioning that follows the formal presentations.

10. **Bulletin board display:** Divide the class into three groups to represent the three sections of the United States prior to the Civil War. Then divide the bulletin board into three parts. Ask each group to present the outstanding characteristics of its assigned geographical section and the stand each section took on the great issues of the day by means of cartoons, drawings, pictures, etc.

11. **Map-discussion lesson:** Ask a committee of students to conduct a map-discussion lesson on the economic differences of the West, North, and South. After drawing a large outline map of the United States on the chalkboard, the class moderator can summarize on the outline map the chief points made by committee members as they discuss the following:
    (a) How the growth of the West led to controversies with the East over each of the following: (1) internal improvements; (2) Second Bank of the United States; (3) purchase of new territory.
    (b) The differing attitudes of the North, East, and South toward each of the following during the 1830s and 1840s: (1) the tariff; (2) internal improvements; (3) western lands.

12. **Map:** Have different members or groups of the class draw a series of maps that show the territorial growth of the United States at various dates between 1789 and 1853.

13. **Summarization:** Have the students list three events between 1800 and 1860 in which economics affected or influenced political questions and three events in which politics affected economic problems.

14. **Film:** Show either of the following films to describe the plantation system of antebellum days: *Plantation System in Southern Life* (11 min.; Coronet) or *The Plantation South* (16 min.; Encyclopedia Britannica).

15. **Filmstrip:** For a review of the slave system, show either *Story of Slavery in the United States* (Visual Aids Consultants) or *When Cotton Was King* (Museum Extension Service).

16. **Book reports:** Students interested in the economics of slavery can make brief oral or written reports on one of the following books:

    Alfred H. Conrad, *The Economics of Slavery* (Chicago: Aldine, 1964)
    Eugene Genovese, *The Political Economy of Slavery* (New York: Pantheon, 1965)
    U. B. Phillips, *American Negro Slavery: A Survey of the Supply, Employment and Control of Negro Labor as Determined by the Plantation Regime* (Baton Rouge: Louisiana State University Press, 1969)

17. **Game:** *Frontier.* This game involves the study of early American westward expansion by emphasizing fundamental sectional differences. (Grade level: 7–12; time: 2–4 hours; no. of players: 25–35; Science Research Associates)

18. **Film:** Show *Firebell in the Night* (Alistair Cooke's America Series) to learn about the abolitionist movement, the South's defense of slavery, the effects of Reconstruction on freed slaves, and sectional problems. (16mm, color, 52 min.; Time-Life Corp.)

19. **Problem for analysis:** The second and third quarters of the nineteenth century (1825–75) were periods of rapid economic growth. To discover the factors that stimulate economic growth, assign selected students to research and report on

Turnpikes and canals	Textile machinery
The steamboat	The railroad
Horsedrawn McCormick reaper	

    At the conclusion of the case studies, the students should be able to discern how each of the above contributed to economic growth.

Topic 8

The Civil War

Economic Facts, Concepts, Principles, or Problems

- Economic aspects of the war
- How economics gave the North the advantage
- The cost of the war
- Taxes
- National banking system

THE CONFEDERACY ADOPTED a constitution very much like the Constitution of the United States, but which gave special protection to the existence of slavery and outlawed tariffs that would safeguard industry from foreign competition. Thus, just as the constitution of 1789 reflected many of the economic interests of the original states, the Confederate constitution dealt with certain economic policies of benefit to the South. An interesting research question is: To what extent were these policies really in the best interest of the South's economy?

Some of the economic advantages enjoyed by the North were cited in Topic 7. A few others are worth noting. The North had a population of more than 22 million, while the South had only 9 million (of which one-third were slaves). The North had 105 million acres of land in crops, while the South had 57 million. The North was the source of 80 percent of all goods and services produced in the country and could produce nine times as many manufactured goods as the South. The South had only 9,000 miles of railroad, the North 22,000, and the latter were more efficiently layed out. The North produced about seventeen times as much iron as the South and enjoyed a diversified economy while the South relied heavily on just one crop—cotton.

The Southerners made some fundamental miscalculations about their economic position. They overestimated European demand for their cotton and forgot that European nations also needed the food crops of the North. Thus, while some assistance came from abroad, foreign support did not live up to the expectations of the Confederacy. History, time after time, shows the importance of economics in warfare. It is a grave mistake to underestimate the strength of a potential enemy or to overestimate one's own economic power. (For example, Hitler failed to grasp the tremendous productive capacity the United States would be able to bring to bear in World War II.)

Although the North had the stronger economy, it was not without problems during the Civil War. A large amount of money was needed to pay the costs of the war, and the usual taxes did not suffice. Among other special financial measures, **tariffs** and **excise taxes**—taxes levied on the sale of certain commodities—were increased. Excise taxes are **indirect taxes**, which means that they are levied on one party but actually paid by another. The typical excise tax is levied on manufacturers, who then include the tax in the price of their goods. As a result, such taxes are called "hidden"—that is, the taxes are added into the price of the product, and the consumers to whom it is to be sold frequently are only partly aware, and sometimes completely unaware, that the price they are paying includes such a tax. The same is generally also true of the tariff. (Modern examples of excise taxes are those on tobacco products, alcoholic beverages, and cigarettes.)

WAR IS A costly business, and during the four years of the Civil War the U.S. government spent more than it had expended during all of its previous history. To help defray this great expense, the country's first **income tax** was levied. An income tax is called a **direct tax** because the payer cannot shift it to someone else. Precisely because it cannot be shifted, some believe that the income tax is fairer than an indirect tax. (It is instructive to compare income tax rates during the Civil War with those of today. During the Civil War, people with yearly incomes between $600 and $5,000 paid 5 percent. Those with incomes over $5,000 paid 10 percent. While this is certainly simpler than our current rate structure, was it fairer or less fair than today's?)

Two other means of financing the war were by (a) borrowing and (b) issuing paper money. Borrowing was done through the sale of government bonds. When one buys a government bond, one is lending money to the government. Paper money was resorted to in 1862, when the government issued **fiat money**, or paper money with no backing—such as with silver or gold. This money was nicknamed "greenbacks."

People distrusted the paper notes and often saved

metal coins because those coins were known to have **intrinsic value**; that is, the coins had value aside from their use as money since the metal they contained could be melted down and used in the production of goods. The government therefore issued paper currency in denominations as low as three cents to replace the coins that were being hoarded.

During wars and other emergencies people may become worried about the value of the money they are holding. At such times they may seek to exchange paper currency for gold, silver, or some other commodity whose value they do not expect to decline or to decline as much as that of paper money. People will also exchange the currency of their own nation for that of another whose currency appears to be more stable. Providing a safe and sound system of money is one of the most important obligations that a government has.

America's money and banking system was in disarray after the Second Bank of the United States went out of existence in 1836. Banks chartered by state governments were issuing banknotes (for use as paper money) at such a rate that by 1862 there were at least 7,000 different kinds and denominations of bank notes in circulation. Many of the notes had little or no value, people had no way of telling which ones were good and which were worthless, the values fluctuated from time to time and place to place, and bank failures left many people stuck with a pocketful of "red dog" (worthless paper money). Under the National Banking Acts of 1863 and 1864, the federal government established a **national banking system** to deal with this problem. A bank that deposited U.S. government bonds with the federal government in an amount equal to one-third of the bank's capital (minimum amount, $30,000) received a charter from the federal government and thus became a national bank. The bank could then issue paper money in amounts up to 90 percent of the value of the bonds it had deposited with the government. Thus, there was a limit on the amount of money that could be issued in the country and the money was backed by United States bonds. Since the notes were required to be uniform in appearance, counterfeiting was expected to become more difficult.

The new system put the banks under government supervision. The states could continue to charter banks, however, and today we still have both state-chartered and federally chartered banks. In 1865, however, a 10 percent tax was placed on notes issued by state-chartered banks. This tax, plus the perceived soundness of the national bank notes, caused state bank notes to disappear.

Note that taxation is sometimes used not for the purpose of raising money but for the purpose of control. The tax on state bank notes was designed to drive the notes out of existence. As we have seen, the protective tariff is a tax designed to impede the entry of certain foreign goods. High taxes are sometimes placed on undesirable commodities to discourage their use. For example, when phosphorus matches were found to be harmful to human health (workers in match factories often contracted cancer of the jaw), they were eliminated by simply placing so high a tax on these matches as to make them too expensive to use.

Inflation was a serious problem in both the North and South during the Civil War. In the North, the price of cloth went up 400 percent, the cost of groceries and flour doubled, and rent, fuel, and meat prices rose by 50 percent. The "greenbacks" had greatly increased the amount of money in the economy, helping to push up prices. Feeling that greenbacks were less valuable than gold coins, sellers refused to give as many goods for a greenback dollar as for a dollar backed by gold. In the summer of 1864 it took about 2½ greenback dollars to obtain the same amount of goods as with a gold dollar. Increases in consumer demand and in government spending also added to the inflationary pressures. The situation was much worse in the South. The Confederacy issued twice as much paper money without gold or silver backing as did the North, and it had less ability to produce goods. At one point, meat cost $250 a pound and flour $1,000 a barrel. In 1863, Confederate dollar notes were worth only 33 cents in gold money; before the war was over their value had fallen to less than two cents worth of gold.

The costs of the war were staggering. More than 600,000 men lost their lives, cities and towns were burned to the ground, and southern factories, farms, plantations, and crops were destroyed. On the whole, however, the North made economic progress. Immigrants continued to arrive, people moved West and opened new lands to agriculture, and new machinery and better production methods were adopted by both farmers and factory owners. There are several instructive ways of looking at the costs of a war. One is to calculate the value of the goods and services that could otherwise have been produced by the people who went to war. Another is to determine the amount of useful civilian goods that could have been produced instead of guns, ammunition, warships, and other instruments of war. Even more important, how much could have been produced in subsequent years if those killed or wounded had been able to live longer or more productive lives.

DISCUSSION QUESTIONS

Economic concepts, ideas, etc., that might be brought up in answering the questions are printed in **heavy type** (boldface).

1. Show how the constitution of the Confederacy reflected the economic policies favored by the South. To what extent were these policies really in the best interest of the South's economy?
   Tariffs and trade; role of slavery in the southern plantation economy.

2. Discuss the economic advantages enjoyed by the North at the start of the Civil War. Why did the South expect to win, despite its economic handicaps?
   Relative shares of productive resources; economic diversification vs. one-crop economy; importance of infrastructure, capital, technology; economic strength for warfare; economic relations with Europe.

3. How did the South expect to obtain the arms, munitions, and ships necessary for winning?
   (a) Why did foreign economic aid to the Confederacy fall short of the South's expectations?
   How economic interests affect foreign policies.
   (b) The Confederacy failed to estimate correctly the enemy's tremendous productive capability. Show how both the Kaiser and Hitler made the same mistake in later wars.
   Productivity; role of economies in warfare.

4. Explain how the North used *indirect taxes*, such as customs duties and excise taxes, to raise revenue in order to carry on the war.
   Various purposes of taxation; fairness of different kinds of taxes; impact of taxes.
   (a) Why are indirect taxes called hidden taxes?
   (b) Name some excise taxes paid by you or members of your family today.

5. The first income tax in American history was enacted during the Civil War.
   Direct and indirect taxes; tax rates (progressive, regressive, proportional); taxes and income redistribution; fairness of taxes; impact of taxes; tax burden then and now.
   (a) Compare the rates, exemptions, and burden of the Civil War income tax with those of our federal individual income tax today.
   (b) Why is the income tax called a *direct tax*?
   (c) Name some other direct taxes paid by your family today.

6. During the Civil War the Union government issued paper money, popularly called "greenbacks," to raise revenue for the war.
   (a) Why were the greenbacks called "fiat money"?
   Wartime finance; inconvertible paper money; legal tender.
   (b) Why did silver dollars and coins "go into hiding" when greenbacks were issued?
   Gresham's Law—cheap (inferior) money tends to drive dear (superior) money out of circulation; intrinsic value of metal coins; inflation.
   (c) Explain why the value of greenbacks fluctuated with the fortunes of war.
   Greenbacks as notes based on the credit of the U.S. government; relationship between political stability and confidence in money.

7. Explain why you agree or disagree with each of the following statements:
   (a) The Civil War was a victory of the political and economic ideas of Hamilton over those of Jefferson.
   (b) Geography determined which states would secede from the Union.
   (c) The Civil War was an "irrepressible conflict".

8. Both the Union and the Confederacy encountered serious financial problems during the Civil War. Explain how each of the following was a problem common to both: (a) inflationary prices; (b) borrowing to finance the war; (c) higher taxes; (d) issue of paper money.

9. Compare conditions in the South before the Civil War with conditions there today, with reference to the following: (a) position of blacks; (b) agriculture; (c) manufacturing; (d) wealth.
   Economics of racial discrimination; regional economic development.

10. Show how the Civil War affected each of the following: (a) powers of the states; (b) agriculture in the South; (c) the blacks; (d) the powers of the presidency.

11. Show how the National Banking Act of 1863 was designed to (a) help solve the currency problem; (b) provide a market for government bonds.
    Problems of wartime finance; money and banking; federal and state regulation of banks; reserve requirements; government bonds.

12. Discuss the effects of inflation on consumers in the North and in the South in the 1860s.
    Inflation and cost of living; money supply; effects of inflation on creditors and debtors.
    (a) How did the United States government attempt to

forestall runaway prices during World War I, World War II, and the Korean War?

13. Show how three developments in methods of transportation during the years 1800–60 influenced the victory of the North in the Civil War.
Importance of infrastructure; transportation and communication; regional economic integration; effects of common economic interests.

14. Discuss the economic effects of the Civil War on the North and on the South.
Economic growth and development; influence of economic groups controlling federal government; tariffs; development of the West; real costs of war; economic impact of abolition of slavery; depression; inflation.

15. Was the good accomplished by the Civil War worth the cost in money, suffering, and human life? Give reasons for your answer.

16. Should history books give more space to the role of women and of blacks in winning the Civil War? Give reasons for your answer.

17. Show how the following had an effect on the outcome of the Civil War: (a) McCormick's reaper; (b) black soldiers in the Union army; (c) the common people of England; (d) the Union navy and the merchant marine.

18. A famous American historian called the Civil War "the Second American Revolution." Do you agree or disagree? Explain your answer.
Impact of the war on industry, agriculture, finance.

19. Why was the issuing of greenbacks by the North during the Civil War considered "a forced loan"?
War financing; value of money; inflation; fiat money.

20. Explain the extent to which the Republican party redeemed the platform pledges it made in 1860.
Infrastructure; land policy; immigration and population; tariff; railroads.

ACTIVITIES

1. **Table:** Prepare a table comparing the resources of the North and the South in 1861 for carrying on a successful war. Include items such as the number of states, population, enlistments, capital, natural resources, manufacturing, railroad mileage, etc.

2. **Cartoon:** Draw a cartoon illustrating the abolition of slavery.

3. **Letters:** Ask the students to imagine themselves writing home about one of the following:
   - The effect of the Union blockade on a southern port.
   - Economic conditions in a southern town near the end of the war.
   - Inflation and its effects on the southern standard of living.

4. **Report:** Determine the number of national banks in your city or town. Explain to the class how a national bank differs from a state bank.

5. **Spelldown:** Arrange for a spelldown (spelling bee) on economic concepts, terms, and trends for review in a unit test on the Civil War. Ask the students to submit questions for the spelldown in advance.

6. **Essay:** Using one of the quotations given below, write a position paper on the author's point of view:
   - "Slavery is a national sin." (Statement by William Lloyd Garrison)
   - "Slavery is a perfect good." (Statement by John C. Calhoun)
   - "A house divided against itself cannot stand." (Statement by Abraham Lincoln)

7. **Time line:** Prepare a time line of important events leading to the Civil War.

8. **Graphs:** Construct a series of bar graphs to compare the resources (population, states, railroad mileage, etc.) of the North with those of the South.

9. **Map:** On an outline map of the United States, indicate by color and label the Confederate states, the Union states, and the border states.

10. **Debate:** Resolved: That the Civil War was inevitable.

11. **Panel on causes of the Civil War:** Assign several students to do research on and then present to the panel the economic, social and political causes of the Civil War.

12. **Dialogues:** Ask two students to conduct dialogues on each of the following topics:
   - Southern arguments justifying secession and the arguments against it.
   - Economic and social conditions in the North and the South during the Civil War.
   - Slavery versus "the other causes" of the Civil War.

13. **Simulation:** "Division: A Simulation of the Division Issues of the 1850s and the Crisis Election of 1860." Students are divided into four factions, and each faction represents one of the following: Lincoln, Douglas, Breckinridge, and Bell. Students study 14 issues dividing Americans during the 1850s. The simulation helps students discover why compromising is a necessary part of making political deals, why inability to compromise in 1860 led to the election of Lincoln and the division of the United States into

two hostile nations, and why complex events such as the Civil War have multiple causes. (Time: 3 weeks; no. of players: 25–35; Interact)

14. **Filmstrip:** *The Civil War: Its Background and Causes* (1982) focuses on economic causes. Part I treats the economics of slavery and its effect on the North and the South. Part II shows why the manufacturing North needed economic control over the country's resources and political control over the frontier territories (the Ohio Valley). This created friction between the North and South which was manifest in reactions to the Dred Scott decision, the hanging of John Brown, and the South's secession upon Lincoln's election. (Color, 2 filmstrips, 2 cassettes, guide; Benchmark)

15. **Filmstrip:** *Women in the Civil War* (1979) treats women's contributions to the war effort both in the Union and in the Confederacy. It features such personalities as Clara Barton and Harriet Beecher Stowe. (Color, cassette, teacher's guide; Multi-Media)

16. **Problem for analysis:** Charles A. Beard hailed the Civil War as one of the great watersheds of American history. Slavery was officially abolished, secession became a dead issue, and a new business class firmly took up the levers of power in its own hands. But, was the Civil War "the Second American Revolution," *the* dramatic turning point in American history? Historians disagree.
    (a) To what extent was economic sectionalism (regional economic differences) ended by the Civil War? Explain your answer.
    (b) To what extent did the Civil War spark a Second Industrial Revolution in the United States? Explain your answer.
    (c) To what extent did the Civil War "free" blacks? Explain your answer.

Topic 9

The United States Becomes an Industrial Leader

Economic Facts, Concepts, Principles, or Problems

- Growth of big business
- The corporation
- Forms of business enterprise
- Productivity
- Urbanization

THE PROBLEM OF Reconstruction not only kept the political pot boiling after the Civil War but also had important economic aspects. Many northern manufacturers supported the so-called radical Republicans, who favored harsh treatment of the South. It was feared by these Republicans that the former rebels would organize a coalition with northern Democrats and repeal both the Morrill Act with its high tariffs and the legislation establishing national banks. The economic interests of the various factions should be studied in some detail, although one must not be too quick to assume that economics provided the only motivation for the actions of the different groups.

In spite of political problems and such economic setbacks as the Panic of 1873, the nation's economy grew rapidly. America was experiencing its own **industrial revolution**, and whereas the United States had been fourth in the world as a manufacturer of goods in 1860, it was in first place by 1894. As early as 1870, U.S. manufacturing output equaled that of Germany plus France and by 1913 it equaled the combined output of Germany, France, and Britain. By 1900 the United States was producing seven times as many industrial goods as in 1865. Between 1865 and 1900 steel production rose by more than 1,000 percent. Railroad mileage increased from 35,000 to 260,000. The same period saw the introduction of the telephone, the electric light, the typewriter, and the automobile. Such great new industries as meat packing and petroleum appeared. Students may gather many more facts of this nature, but the question of what the causes of this **economic growth** were should receive even greater attention. To make the question of the causes of economic growth relevant to more recent times, one might ask: Which of the factors instrumental in America's great economic growth are at work in the lower-income nations of today? What factors are most important to America's current economic growth? Are any of the factors that contributed to post-Civil War growth undesirable in present-day conditions in the United States? In lower-income nations?

Rapid **population** increase was a factor in America's economic growth after the Civil War. U.S. population rose from 35.7 million in 1865 to 100.5 million in 1915. A substantial portion of this increase of about 65 million was because of the arrival of about 28 million immigrants in this period and the children they bore afterward. The newcomers and their descendants added to the U.S. labor force, helped expand the consumer market, and thus helped increase economic activity.

Another factor was the increase in the **stock of capital goods** (such as factories and machinery) which rose at an annual rate of about 4 percent from 1869 to World War I. Since the labor force did not grow as rapidly as that, the amount of capital stock per worker increased. This helps to account for rising labor **productivity.** In the late 1870s about 20 percent of all U.S. output was going into material investment, and between 1899 and 1908 the figure was 28 percent. Such rates are quite high.

Students should understand the importance of **investment in capital goods.** To have economic growth, and to provide more goods and services for more people, we must forgo producing a certain amount of consumer goods. Such a choice allows more of a nation's productive efforts to be channeled into the creation and improvement of the factories and equipment necessary to increase future production of consumer goods. In one way or other, every society has to decide on its "trade-off" between capital goods production and consumer goods production. In other words, we must sacrifice a certain amount of consumption today in order to have even more tomorrow. One value question is: To what extent should the decision be left to the free market and to what extent should government decide on the "mix" between capital goods production and consumer goods production? Others are: Should a nation's current gen-

eration be asked to reduce its level of living so that the nation's resources can be devoted to capital accumulation that will benefit a future generation? How might a government encourage more capital investment without completely giving up a system based on free markets?

EDUCATION IS EXTREMELY important in explaining our economic growth. During the period we are examining, an increasing proportion of the nation's resources was being channeled into education. Direct expenditure for education rose from $35 million in 1860 to $290 in 1900. (In relation to a rising GNP, this was an increase from 0.008 percent to 0.017 percent.[1]) Studies have shown that investment in education (which economists term **investment in human capital**) is closely related to per capita income, and there is no doubt that education played a vital role in making the United States more productive.[2]

Another source of economic growth was the railroad. It provided higher-quality service than water carriers, more direct routes, greater speed and safety, and year-round service. It lessened the need for transshipments, permitted settlement in places that had no water transportation, and made delivery dates more certain. Thus, insurance rates and warehouse charges declined. Farmers could relocate more easily, and grain and meat production soon became concentrated west of the Mississippi—a relocation that contributed to rising agricultural productivity. The telephone and the telegraph, also, greatly aided in productivity increases, speeding up the exchange of information that is so vital in a market economy, helping to make marketing more efficient, and promoting greater competition.

CITIES GREW RAPIDLY. In 1870, only 26 percent of the U.S. population was urban, and there were only 14 cities with a population over 100,000. By 1910, 46 percent of the population was urban, and there were 49 cities of over 100,000 people. Just as economic growth helped to speed urbanization, so too urbanization helped to hasten economic growth. (Economic growth brings rising incomes and as incomes rise people tend to spend a greater *proportion* of their incomes on nonagricultural products—the types of products usually produced in urban areas. Then, as cities grow and develop they offer many specialized services that are not available in rural areas.[3])

There was a great increase in the number of **corporations** after the Civil War. To appreciate the significance of this fact, the students should know about the other forms of business organization—**proprietorships** and **partnerships**. The advantages and disadvantages of each form should be listed and examined. (These can be found in most introductory economics texts.) Corporations were declared to be "legal persons," and the protections of the Fourteenth Amendment were extended to them. The method by which corporations raise funds through issuing **stock** should be understood, for this usually enabled corporations to raise money more easily than proprietorships and partnerships. (The wealthy of Europe sent billions of dollars to America to help build U.S. factories and railroads, and this could be done through the comparatively simple expedient of purchasing stocks or bonds.) Among the advantages are that owners of stock usually have limited liability, that ownership can change hands literally in a matter of minutes (simply by selling one's stock), and that the corporation has a certain immortality.

The concept of **economies of scale** is also of great importance. Although it is indeed possible for a business firm to become too large to be managed efficiently (in technical terms, there can also be "diseconomies of scale"), the corporate form made it possible for firms to become large enough to engage in specialization, adopt mass-production techniques, hire the best employees, accumulate profits for reinvestment, sell in wider markets, buy in greater quantities (and thus at lower unit cost), and enjoy other advantages over smaller firms. Of course, the disadvantages should also be noted. Some corporations became powerful monopolies, the actual owners (the stockholders) often had little real control over the firm, and dishonest insiders sometimes engaged in corrupt practices for their own benefit at the expense of the general stockholder and the public. (For an example, students might make a study of the Credit Mobilier scandal.) The question of the extent to which corporations should be free from government control has been a controversial one throughout our history.[4]

1. Albert Fishlow, "Levels of Nineteenth-Century American Investment in Education," *Journal of Economic History* 26 (December 1966), 430.
2. One way of helping people rise out of poverty is to increase their skills and education. As people become better educated, they become more productive. As they produce more they can earn more, and they add to the nation's total output as well.
3. For a further discussion of this factor, see Robert Higgs, *The Transformation of the American Economy, 1865–1914* (New York: Wiley, 1971). This book is a brief (127 pages of text) but very informative and scholarly account of the U.S. economy from the Civil War's end to World War I.
4. Some fear that corporations have too many legal rights without concomitant responsibilities. Jefferson is said to have feared that a corporation would be a legal body without a soul. One modern economist has stated that a corporation is a legal body whose posterior cannot be kicked. (He used terms more blunt than these.) On the other hand, corporations *can* be sued, fined, and even broken up by the courts, and corporation officials *can* be imprisoned.

DISCUSSION QUESTIONS

Economic concepts, ideas, etc., that might be brought up in answering the questions are printed in **heavy type** (boldface).

1. In 1803 President Jefferson predicted that it would take a thousand years to settle the land beyond the Mississippi River, yet the western frontier of the United States disappeared in 1890. Explain the role of each of the following in the growth of the United States: (a) immigration; (b) know-how; (c) investments by foreigners; (d) output per worker-hour.
   Labor supply; population; expanding consumer market as stimulus for business; technology; innovations; education; productivity; profit motive; capital; human capital; production costs.

2. Explain why the United States could be called an "underdeveloped country" in the decades immediately following the Civil War. How did wealthy European investors help to develop our country?
   Economic efficiency; supplied capital for investment and economic growth.

3. The reconstruction of the South following the Civil War was a matter of great concern to northern manufacturers.
   (a) Why did some northern manufacturers support the harsh treatment of the South by the Radical Republicans?
   Industrial vs. agricultural interests.
   (b) Describe the gains made by the northern manufacturers during the war.
   Industrialization; tariff protection; national banking system; subsidies and land grants.
   (c) To what extent were the gains erased by the Panic of 1873?
   Business cycle; bank and business failures; unemployment; labor unrest.

4. Why did the United States enjoy rapid economic growth following the Civil War?
   Population; expanding labor force; inventions; increases in the stock of capital goods; productivity; new resources; education; urbanization; transportation and communication.
   (a) How can today's developing nations profit by America's experiences with rapid economic growth?
   Role of capital goods and human capital; infrastructure (social capital).
   (b) What lessons can we draw from our post-Civil War growth that we might apply to current American economic growth?
   Productivity; avoiding business slumps; research and development; education; government's role; "trade-off" between consumption and investment.
   (c) Are there any practices or policies that were desirable in the post-Civil War period that would be undesirable today? Explain your answer.
   Unlimited exploitation of natural resources; rapid population growth.

5. From which countries did immigrants come before the Civil War? After the war?
   (a) Why did the Homestead Act attract European immigrants?
   Economic incentives for migration; population; government's role.
   (b) How and why did steamship and railroad companies encourage immigration?
   Profit motive.
   (c) What changes were there in the stream of immigrants after 1890?
   Labor supply; conflicting interests of domestic labor and management.
   (d) Why did some Americans oppose unrestricted immigration while others welcomed it? Why were the first restrictions directed against the Chinese?
   Labor supply and wages.

6. How accurate are the "wild West" movies in terms of what they reveal about the economic and political life of the old West?
   Government land and settlement policies; economic conflicts between ranchers and farmers, debtors and creditors.

7. What do economists mean by investment? How does their definition differ from the way people who are not economists use the term?
   Capital formation; money capital and physical capital.
   (a) Explain how investment depends upon saving.
   (b) Why does investment often involve a sacrifice of a certain amount of consumption? Illustrate how this is so in the U.S.S.R. or Communist China.
   (c) To what extent should the present generation be asked to do without consumer goods so that its nation's resources can be devoted to capital accumulation for the benefit of future generations?

8. Describe the economies of scale enjoyed by many large corporations. Discuss some of the "diseconomies" connected with large-scale enterprises.
   Costs and output; mass production; efficiency; problems of management in large firms.

9. One of the principal advantages of a corporation is its ability to raise large sums of money.

(a) Describe three sources of new capital from which a corporation can acquire funds.
Stocks; bonds; internal financing.

(b) Why might a corporation prefer to raise capital by selling stocks instead of bonds?

10. Why has the corporation become the dominant type of business organization in the United States today?[5] Discuss the advantages of the corporate form of business.
Limited liability; "legal person"; specialization; economies of scale; distribution of risk; easy transfer of ownership; "immortality."

11. In general, what types of business are best suited to individual ownership or partnership rather than the corporate form?

(a) Compare the advantages of large-scale and small-scale business enterprises.
Economies and diseconomies of scale.

(b) Discuss the factors which must be present before a small-scale enterprise can develop into a large-scale firm.
Importance of capital; entrepreneurship; product markets; increasing returns to scale.

12. Why have cities historically been "centers of civilization?"

(a) Explain why cities grew in size and number following the Civil War.

(b) What is the relationship between urbanization and economic growth?
Specialization; transportation and communication; concentration of markets.

13. How did people travel west of the Mississippi before the railroads?

(a) How did the transcontinental railroad systems open up the West?
Infrastructure; social capital; transportation and communication; costs.

(b) Why were the western railroads essential for: (1) mining; (2) agricultural development; (3) meat packing; (4) food supplies for city dwellers?

(c) How did the railroads: (1) raise the American standard of living; (2) increase the productivity of western farmers and ranchers?

(d) Explain how the development of one industry, such as the railroads, helps the growth of others such as farming, steel making, and manufacturing in general.
Interdependence; specialization and exchange; technology; costs; markets.

14. Why is the firm called "the basic unit or cell of our free enterprise economy"?
Profit system; free enterprise; role of business in market economy.

15. Why do economists consider the skills, training, and literacy of the labor force to be "human capital"?
Education and productivity.

16. What were the provisions of the Homestead Act of 1862? Explain an important effect of the act on any two of the following: agriculture in the East; immigration; the Indians; the cattle industry.
Land as a factor of production; government land policy; economic incentives.

17. Discuss the effects of each of the following on the way of life of the Plains Indian: building of the transcontinental railroads; invention of the Colt revolver; destruction of the buffalo; Dawes Act.
Impact of technology; economic growth; land policy; destruction of natural resources.

18. In 1914, Henry Ford astounded the country's automobile manufacturers by announcing sensationally high wages—a minimum of $5 for an eight-hour day.

(a) How did labor in other industries react to the new wage increase for Ford workers?

(b) Why did Ford raise his minimum daily wage?
Stimulate increase in productivity; employees would be a new market for his cars.

ACTIVITIES

1. **Reports on "captains of industry":** For each of the following—Cornelius Vanderbilt, Jay Cooke, Leland Stanford, Andrew Carnegie, Jay Gould, J. Pierpont Morgan, James J. Hill, and John D. Rockefeller—assign a student to prepare an oral report touching on the following basic points:

His family's background
His accomplishments in his field
The benefits society gained from his enterprise
His attitude toward laissez faire
Your explanation of his outstanding success

2. **Graphs:** Have students draw a bar graph indicating by decades the growth of total manufacturing output between 1860 and 1890; a line graph indicating the growth by decades between 1870 and 1900 for steel production, railroad mileage, and meat packing. Source of information: *Historical Statistics of the United States.*

5. Actually, proprietorships and partnerships are substantially more numerous than corporations, but corporations account for the lion's share of production, receipts, value of assets, and so on.

3. **Reports:** Ask individual students to make brief oral reports on:

   Alexander Graham Bell and the telephone
   Thomas Edison and the electric light bulb
   John D. Rockefeller and the oil industry
   Andrew Carnegie and the steel industry
   Wright brothers and aviation

4. Have students investigate and report on the backgrounds and occupations of immigrants (or migrants) who came to your community in the past century. What kinds of work did newcomers chiefly engage in then? Now? What contributions have newcomers made to the economic and cultural life of your community?

5. **Interview:** Ask an adult who was born in Europe but is now a U.S. resident the following questions:
   (a) Why did you come?
   (b) What difficulties did you encounter as a newcomer?
   (c) To what extent did you find in America what you expected to find?

6. **Maps:** Students may be asked to prepare (a) a map of the routes from the Mississippi to California before 1860; (b) a map of the rail and waterways circa 1880; (c) a map of the principal national highways today.

7. **Diary:** Ask a student to prepare a fictional diary or letters describing a trip west on the Union Pacific Railroad in the 1870s.

8. **Special reports on railroads:** Ask interested students to investigate and report on the following:

   Crédit Mobilier scandal
   Railroad financing methods
   Construction problems in building transcontinental railroads

9. **Adventure story:** Write an adventure story based on an imaginary trip from St. Joseph to San Francisco at the time of the Civil War. Descriptive material is available in Mark Twain's *Roughing It* (Chapters 1-8). Describe how you would travel, the hardships and dangers involved, and what you would see and encounter.

10. **Graph:** Draw a line graph indicating total expenditures for education in the United States between 1860 and 1900.

11. **Individual research paper:** Have a student do a simple research paper on how investment in education (years of schooling) is related to personal income and to life-time earnings.

12. **Table:** Construct a table comparing the advantages of large- and small-scale business enterprises. Include such items as sources of capital, risks involved, relationship between owners and employees, responsibilities of owners, marketing problems, overhead costs, and the role of research and development.

13. **Cartoon:** Draw a cartoon depicting an effect of mass production, standardization, or big business on American life.

14. **Table:** Prepare a table, with columns labeled as illustrated below, to summarize the advantages and disadvantages of the three forms of business organization.

15. **Record:** Play "The Great West: Historical Narration and Music." It describes the U.S. expansion westward, using narration and songs. (American Heritage Series)

16. **Filmstrip:** Show *Yesterday's West*, which describes the events and people of the American West in the nineteenth century. (4 filmstrips, 2 records; Universal Education and the Visual Arts)

SINGLE OWNERSHIP		PARTNERSHIP		CORPORATION	
Advantages	**Disadvantages**	**Advantages**	**Disadvantages**	**Advantages**	**Disadvantages**

17. **Game:** "Promotion" simulates interacting developments of city growth, industrial growth, and railroad expansion in late nineteenth century America. (Grade level: 7–12; no. of players: 25–35; Science Research Associates)

18. **Filmstrip:** *Reconstruction* (1979) portrays one of the most critical and complex eras of American history: 1865–1877. The program focuses on black emancipation, civil rights, hard economic times, and political alliances. (2 filmstrips, 2 records or cassettes, 2 spirit duplicating masters, and teacher's guide; EAV)

19. **Film:** *Growth of Farming in America, 1865–1900* (1967) documents the tremendous changes in farming that took place between 1865 and 1960. It was a period of transition from small to large scale operations, technological advances, farm protest movements, hardships, etc. (Black and white, 14 min., teacher's guide; Coronet Films)

20. **Film:** *Immigration Experience: The Long, Long Journey* focuses on the dreams and problems of immigrants by telling about a family of Polish Americans. (Color, 29 min.; Learning Corporation of America)

21. **Oral reports:** Ask your students to present brief sketches on the contributions of each of the following inventors to American economic and social life: Pullman, Westinghouse, Morse, Field, Bell, Sholes and Edison.

22. **Filmstrip:** To help students understand the effects of industrialization on the people of the Gilded Age (the generation after the Civil War), show *Industrial America: America Comes of Age: 1870–1917.* (Black and white, sound; Scott Education Division)

23. **Film:** To describe the great influx of new immigrants between 1885 and 1915, show *Huddled Masses,* Alistair Cooke's America Series. (16 mm, color, 52 min.; Time-Life Films, Inc.)

24. **Problem for analysis:** Economists tell us that when wages increase proportionately with prices in times of increasing productivity and economic growth, the level of living goes up. More and more items become necessities. Why is this so?
    (a) Mention some items, considered luxuries in the 1890s, that all families now consider necessities.
    (b) Explain what happens to the level of living when labor demands and receives higher wages but productivity (output per worker-hour) is not increasing.
    (c) Why should both labor and management be interested in increasing productivity and promoting growth?

Topic 10

The Protest Movements

Economic Facts, Concepts, Principles, or Problems

- Labor unions
- Functional distribution of income
- Farm problems
- Women's rights

Although the United States made great economic progress after the Civil War, this progress was uneven (for example, the periods from 1873 to 1878 and 1893 to 1897 were periods of major **depressions**) and there were many who did not seem to be getting a fair share of the nation's increasing wealth. Various protest movements emerged on behalf of the workers, the farmers, women, the urban poor, immigrants, and other groups. One of the most interesting and important elements in American economic history is the growth of **labor organizations**. Since most men and the majority of women in the United States spend the better part of their lives in the labor force, it is important for students to learn about the role of labor **unions** in the United States economy.

Students should study the reasons for the formation of unions and the history of union development. It would help to backtrack at this point and to contrast conditions in the late 1700s and early 1800s with those of the post-Civil War period. The contemporary situation should also be noted, of course. Unions did exist back in the 1790s, although they tended to be small and localized. Also, they were often not intended to be permanent organizations, but would disband as soon as the workers' immediate objectives (such as higher pay) were achieved. More importantly, most factories and shops were small enough so that employees could have close personal contact with the employer, many workers could easily return to farming if factory work proved to be unsatisfactory, and it was not uncommon for workers to raise some of their own food on their own property and thus not have to rely solely on their wages for subsistence. After the Civil War, however, cities grew larger, factories located in urban areas, slums developed, it became impossible for the industrialist to know each worker personally, and urban workers could no longer raise some of their own food and thus became totally dependent upon wages. Immigrants were pouring in from abroad and increasing the labor supply, helping to keep wages low, accepting working conditions that native-born Americans would not tolerate, and even serving as strikebreakers. The end of the frontier meant fewer opportunities to move West and turn to farming when factory work and urban life became oppressive.

Some of the **wage theories** that were espoused by employers during the nineteenth century should be examined. The so-called **iron law of wages** was the generalization that wages tend to settle at a point just barely high enough to maintain the working classes at a bare subsistence level of living. If the wage goes above this point, went the argument, workers will have more children and the supply of labor will thus increase. The **law of supply and demand** will now function to push the wage rate down—perhaps even below the subsistence level. Workers having difficulty feeding themselves will not be inclined to have children, so the labor supply will diminish. Now the law of supply and demand pushes wages up until they again reach that point where the rate is at the subsistence level. In somewhat overly simplified terms, this was a theory of what happened to wages in the long run. Some employers saw this as being what *ought* to happen and argued that it was folly to pay workers more than the subsistence wage. One employer reportedly stated: "When workers get starved down to it, then they are going to work at what you can pay."[1] The U.S. experience in the twentieth century, of course, has disproved many theories of this type. Higher-paid workers do not always produce more children, and the worker whose income is well above the subsistence level is better able to buy the output of industry.

Other theories that might be examined are the **wages fund theory**, the **marginal productivity theory**, and the **bargaining theory**. According to the wages fund theory, employers use income from previous years to buy materials, pay rent, pay interest, and hire labor. A specified amount (the wages fund) is set aside for labor.

1. See Harvey C. Bunke, *A Primer on American Economic History* (New York: Random House, 1969), p. 77.

An increase in the number of workers will reduce the wage rate because more people will be sharing the same amount of money. If the labor supply diminishes, on the other hand, the wage rate will rise. Given a fixed wages fund and a fixed supply of labor, if one group of workers successfully fights for an increase, some other group will have to take a cut in pay. And, if the entire wages fund were increased, there would be less return for the other factors of production (land, capital goods, and entrepreneurial labor).

The **marginal productivity theory** is more complex, and the reader should study a standard economics text or books on labor economics and wages for details. In essence, this theory asserts that the wage rate will be the marginal revenue product of labor.[2] All workers of the same type will get the same wage, which is a wage equal to the marginal productivity of the last worker hired. In other words, a firm will keep hiring workers as long as the last person hired adds enough to the firm's total revenues to at least pay that last person's own wage.

The **bargaining theory** is especially important to the study of unionism. There is a maximum and minimum point for the wage rate, and the actual wage will be determined by the relative bargaining power of management and labor. A worker's **opportunity cost** might set the minimum point, for – all other things being equal – he will not work for Firm X if he can get a higher wage at Firm Y. (In the long run, the bare subsistence level might set the lowest possible wage, for workers must earn at least enough to keep themselves alive.) The maximum wage rate is set by the worker's productivity. If a worker adds $50 a day to the firm's revenues, and that same worker can get $45 a day for doing the same job elsewhere, then the wage will be somewhere between $45 and $50. If the worker is in a weak bargaining position – the supply of labor is large, there is high unemployment, or there is no union to bargain for the worker – then the wage is likely to be near the minimum point. If workers are in a strong bargaining position – labor is scarce, there is full employment, employers are fiercely competing with one another and need all the workers they can get, or there is a strong union – then the wages are likely to be close to the maximum point.

The basic issue here is the **functional distribution of income** – the sharing of income among the factors – land, labor, and capital goods – that produce the income. Labor can be defined as all productive human effort, and labor's share is called **wages. Profits** and/or **interest** make up the share going to those who provide funds for capital investment. **Rent** is the share going to those providing land. (Value questions: Just how should we determine who gets what share of the pie? What constitutes a "fair" profit? How can we decide what is a "fair" wage? What is a "fair" rent? Can a mass *production* economy succeed without creating a basis for mass *consumption*?) The controversy over how income is to be shared provides many of the intellectual fireworks that enliven American economic history. Among the tantalizing questions that might be explored by the class is: Is it possible for one factor of production to increase its income without decreasing the share going to another factor?

BETTER WAGES HAVE always been a basic aim of organized labor. One of the causes of the great railroad strike of 1877, for example, was that wages were being cut while stockholders were receiving larger dividends. There are many interesting facts along these lines that can be used in your lessons. For example, it is said that in 1900 Andrew Carnegie's income was $23 million (and there was no income tax!), while the average American worker was receiving somewhere between $400 and $500.[3] Thus, Carnegie's income was nearly 50,000 times greater than that of the average worker!

Students should understand, however, that unions have many other goals beside wages. (This is particularly important because the press has often emphasized the wage demand during labor disputes at the expense of other important issues.) As many as 35,000 workers have been killed in a single year in job-related accidents, and thousands more have suffered from serious injuries or diseases. In the country's early days, children were set to work as early as 4:30 in the morning and sent home at nightfall – putting in a 90-hour week and receiving as little as one dollar for the entire week's work. Unions were considered illegal organizations by early courts, and in many other ways the forces of government were often brought to bear against the worker.

It is true that workers sometimes employed violence, but so did management and government. Such confrontations as the railroad strike of 1877, the Homestead Strike (1892), and the Cripple Creek Strike (1894) are exciting; events of that nature, as well as strikes or the occasional act of violence capture the headlines. It should be stressed, however, that the overwhelming majority of labor-management differences today are settled peacefully at the bargaining table. It might be noted, too, that labor organizations often take an interest in problems that are not "pure and simple" union matters. Some of

2. The theory assumes that workers are competing with one another for jobs; employers are competing for workers, labor is mobile and will move to where wages are highest; capital is mobile; full employment exists; the value of labor's marginal product can be ascertained; workers of the same type are interchangeable and receive the same wage; and employers are seeking to maximize profits.

3. Frederick Lewis Allen, *The Big Change* (New York: Bantam, 1952), pp. 24–25.

the earliest worker groups fought for free public schools. Modern unions sometimes serve as a "people's lobby" to promote better housing, slum clearance, pollution control, tax reform, and the like.

THE RIGHT TO organize and to bargain collectively is probably the most basic and most important of labor's demands. Once workers have formed a union, and that union has been recognized as the rightful **bargaining agent**, there is a better chance that the other typical demands (higher pay, a shorter work week, better and safer working conditions, job security, and fringe benefits) will be met. Although a Massachusetts court ruled in 1842 (*Commonwealth* v. *Hunt*) that unions were lawful organizations, rather than illegal conspiracies, governments were generally either indifferent toward labor or took the side of management until about 1932. The Sherman Act, designed as an antitrust law, was used against labor, and court injunctions against strikes were common until limited by the Norris-La Guardia Act of 1932. In 1935 the National Labor Relations Act (Wagner Act) established the right of workers to join unions and bargain collectively (see Topic 16).

The class should evaluate the goals and demands of labor, note the extent to which they have been met, and identify those that are still unfulfilled. If students find that even today many workers are killed or injured on the job, that children are still being employed in hard and dangerous farm occupations, and that inequities in wages exist, the students should discuss the question of how best to remedy these ills. The approach to labor-management issues should be as objective and unemotional as possible. The notion that one side is always right and the other always wrong should be avoided. One must "stick to the facts" as well as apply the economic tools of analysis.

Union structures can be examined, so that students understand the meaning of **craft union, industrial union, local, national, international,** and **federation.** The goals, techniques, and weapons of labor and of management can be defined and compared. Some of the terms students should understand are strike, lockout, boycott, agency shop, closed shop, open shop, union shop, arbitration, bargaining unit, checkoff, company union, cooling-off period, escalator clause, featherbedding, mediation, fringe benefits, guaranteed annual wage, injunction, picketing, productivity, right-to-work law, shop steward, and yellow-dog contract. Later in the course there will be further opportunities to reinforce and augment study of the labor movement.

AMONG OTHER GROUPS that have demanded fairer treatment, the farmers are particularly worthy of study. Was the average farmer of the late nineteenth century really suffering from excessive railroad charges, land monopolists and speculators, and unreasonably high interest rates? (And to what extent are the complaints of today's farmers justified?) The answer is far from simple, and economic historians have been doing a great deal of research on this subject. If railroad rates were indeed rising at a particular period in history, can it be assumed that this hurt the farmer who relied upon the railroad to get his crops to market? That assumption cannot be accepted without evidence. One should ask such questions as: Were the rates rising faster than the prices the farmers received for their products?[4]

The fight for women's rights certainly has economic implications. It is important to realize that our economy as a whole is affected by discrimination. People who are denied jobs that they are capable of holding (or denied educational opportunities that would train them for better jobs) are not producing as much as they could be producing. Thus, their incomes are lower than would otherwise be the case, and the total national income is lower. Undoubtedly, our current GNP would be higher by several billions of dollars if blacks, women, and other victims of discrimination were accorded equal opportunities. Many of the great women of American history fought not only for their own rights but to obtain a better level of living for blacks, the poor, the inmates of asylums and prisons, and workers in general. Movements to obtain better health and housing likewise have economic significance. Poor housing and disease often go hand in hand, and—aside from feeling compassion for those who are ill—we should realize that by ending these conditions we improve the output of the persons involved and of society as a whole.

4. For a brief but excellent discussion of the farmer's complaints, see Robert Higgs, *The Transformation of the American Economy, 1865–1914: An Essay in Interpretation* (New York: Wiley, 1971), Chap. 4.

DISCUSSION QUESTIONS

Economic concepts, ideas, etc., that might be brought up in answering the questions are printed in **heavy type** (boldface).

1. What is a protest movement? Why did protest movements develop in the second half of the nineteenth century? In the 1960s and 1970s?
   Causes of inequality; functional distribution of income.

2. What are wages? Why do wages differ among occupations? About what percentage of the annual National Income is accounted for by wages?
   Labor productivity; distribution of income.

3. How might wages in a one-company town compare with wage rates in towns where several companies are operating in the same industry? What accounts for the differences?
   Demand for labor; monopolies; company unions; labor's bargaining power.

4. How are wages determined in a competitive free market economy?
   Supply and demand; labor productivity.
   (a) What is the highest wage a worker can ordinarily expect to be paid?
   Labor's productivity.
   (b) What is the lowest wage that a worker will ordinarily accept?
   Subsistence wage; opportunity cost.
   (c) Explain the "iron law of wages."
   Supply and demand for labor; labor productivity; subsistence; other wage theories.

5. How does the proprietor of a beauty salon decide on the exact number of beauticians to be employed?
   Marginal productivity; business costs and revenues.[5]

6. Which jobs in your community earn the highest pay? Which earn the lowest? How do you account for these differences in wages?
   Theories of wage determination; labor productivity; labor unions; demand for labor.

7. What is meant by the "labor force"?
   (a) Explain the major changes that have occurred in the labor force in recent years.
   Predominance of service industry jobs; increasing role of women; role of education.
   (b) Why are changes in the labor force important to you as a high school student?
   Career planning; education for the world of work.

8. In what way did early American unions differ from the unions of today?
   (a) Why did the courts consider the early American unions to be illegal?
   Unions as "conspiracies" under old common law; collective bargaining; goals of labor.
   (b) What is the significance of the case of *Commonwealth* v. *Hunt* (1842), decided by Judge Lemuel Shaw of Massachusetts?
   Legal recognition of unions; labor and government.

9. Why did union organization seem to be more important to American workers after the Civil War?
   Changing industrial situation; urbanization and the worker; working conditions; wages; collective bargaining; immigration; goals of unions.
   (a) How did employers try to resist some of the demands of the workers?
   Weapons of management (lockout, blacklist, company union, yellow-dog contract, etc.)
   (b) What role did government play in labor-management affairs after the Civil War?
   Court injunctions; use of police and troops; state and federal labor laws.

10. Why do workers join unions?
    Collective bargaining; functions of unions; union-sponsored legislation.
    (a) How do unions attempt to influence wages and working conditions?
    (b) Why did the growth of trusts lead to labor troubles?

11. How did the American Federation of Labor differ from the Knights of Labor?
    (a) How did Terrence V. Powderly differ from Samuel Gompers in philosophy, objectives and policies for union action?
    (b) Why did the AFL succeed while the Knights failed?

12. Explain the impact of the American labor movement on each of the following: the protective tariff, cheap land in the West, unrestricted immigration, growth of national business organizations.

5. A firm will keep hiring workers as long as the amount that a worker adds to the firm's total income ("marginal revenue productivity") is greater than—or at least equal to—his wage. Thus, if a new worker adds $30 a day to the firm's revenues, and his wage is $27 a day, the firm will hire him. The firm will stop hiring new workers at that point where the last worker's wage just equals the amount that worker adds to revenues.

13. Discuss the aims of labor and the aims of management in negotiating at the bargaining table. How do they differ? In what ways are they similar?

14. Explain each of the following peaceful methods of settling labor-management differences: collective bargaining; mediation; arbitration; fact-finding boards.

15. Should employers have an unrestricted right to impose lockouts? Should unions have an unrestricted right to call strikes? Should government intervene when work stoppages inconvenience the public or threaten public health and safety? Defend your views.

16. What are profits?
Profits as the "residual share"; business costs and revenues.

    (a) How might each of the following gain if business profits are good? Investors; management; consumers; workers; government.
    Profits as incentives to save, invest, improve production techniques; as rewards for efficiency; use of profits to create new and better products; as source of taxes; as stimulus for economic growth.

    (b) How do government policies affect profits?
    Taxation; fiscal and monetary policies; minimum wage laws.

    (c) Is it possible to have high wages *and* high profits in the same industry? Explain.
    Productivity; functional distribution of income.

17. What group constituted the leading membership of the Populist party?

    (a) Describe the platform of the Populist party.
    Money and banking; taxation; land policy; immigration and labor; transportation and communication; government's role in the economy.

    (b) How successful was the party in achieving its ideals?

18. Organized labor experienced many hardships and setbacks during the fifty-year period following the end of the Civil War. Discuss the major problems facing unions during this period and the reasons for union setbacks.
Distribution of income; government and labor relations; labor and business cycles.

19. Explain at least one effect of each of the following on American economic and political life: (a) the Greenback party, (b) the Granger Movement, (c) the Populists, (d) the farm bloc.
Money and banking; distribution of income; taxation; farm problems; government's role in the economy.

20. Show how the federal government attempted to meet one major demand of the western farmers in the last quarter of the nineteenth century.

21. How are the problems of the cities in the 1880s and 1890s similar to the problems of cities today? How do they differ?
Housing; transportation; slums; poverty; welfare; congestion; costs of health care.

22. Although the Republican and Democratic parties have dominated American politics since the Civil War, much of the economic and political progress of the American people is said to be the result of the pressure of third parties. Do you agree? Explain your answer.

23. Discuss the effect of each of the following on the American worker: (a) the end of the frontier; (b) increased use of machinery; (c) the rise of "company towns"; (d) business panics; (e) the growth of industrial combinations; (f) government involvement in labor-management affairs.
Supply and demand for labor; automation; productivity; monopoly powers; the business cycle; labor legislation.

24. Compare hours, wages, working conditions, and fringe benefits in the 1880s and the 1980s. Explain the differences.
Collective bargaining; labor contracts; health, safety, and workmen's compensation laws; child labor laws; social insurance; minimum wage laws.

25. After the Civil War, life on the farms and in small towns changed greatly. How did each of the following affect the manner of living in rural areas?

    (a) Rural electrification

    (b) The interurban trolley car

    (c) The automobile

    (d) The telephone

    (e) Radio and television.
    Technological change; standards of living.

26. The farmers' troubles in the late nineteenth century can be described in terms of supply and demand. Explain how supply and demand affects

    (a) the price of farm land

    (b) the cost of transporting produce to market

    (c) the price paid for wheat, corn, or soybeans in the wholesale market

    (d) the establishment of farm cooperatives.
    Elastic and inelastic demand; laws of supply and demand; markets; market price; competition.

27. The farmers' problems in the 1880s and 1890s were partly due to excessive competition.

    (a) Show how the farm problem is caused by a combination of free competition on the supply side and inelasticity on the demand side.
    Elastic and inelastic demand; competition; markets.

    (b) Why do farmers operate under conditions closely approximating pure competition?
    Freedom of enterprise; many producers, many buyers; law of supply and demand.

ACTIVITIES

1. **Then-now:** Plan a series of skits to illustrate the nature of protest movements on behalf of the nation's workers, farmers, women, the urban poor, immigrants, and other minorities in the second half of the nineteenth century and in the 1980s.

2. **Graph:** Using *The Statistical Abstract of the United States* or *Historical Statistics of the United States*, prepare line or bar graphs on the number of workers in agriculture, mining, trade, and other areas for the decades from 1880 to 1980.

3. **Short paper on career:** Ask students to prepare a short paper on the job they are considering as a career. Include the job characteristics, the supply of potential applicants, and the advantages and disadvantages of their chosen profession or vocation.

4. **Speaker:** Invite a representative from organized labor to the classroom to give a first-hand account of the history of a local union; the speaker should include information about the union's affiliation and program.

5. **Book report:** Some fiction vividly portrays the life of farmers and ranchers during the period of the Agrarian Crusade. A student may, for example, wish to report on Hamlin Garland's *A Son of the Middle Border* or O. E. Rolvaag's *Giants in the Earth*.

6. **Oral reports:** Ask the students to do library research on the origins, structure, achievements, and shortcomings of the following nineteenth century unions.

   National Labor Union
   Knights of Labor
   American Federation of Labor

7. **Table on industrial warfare:** In one column of a two-column table, have the students list the chief weapons in labor's arsenal (picketing, boycott, union shop, etc.), and in the other the countermeasures for each of labor's weapons that management has developed.

8. **Topics for panels and debates:**

   Should workers join unions?
   Can unions and businessmen keep industrial peace?
   Has collective bargaining been a failure in keeping industrial peace?
   Should the government regulate unions in the public interest?
   Should unions be incorporated and held responsible for the actions of individual members?

9. **Sociodrama:** Organize the class into an impromptu union membership meeting for the discussion of a controversial issue – the opening up of traditional men's jobs in a local factory or other place of employment to women employees.

10. **Interview:** Ask a representative of a union and of a local company that recognizes a union to come to class and explain how they bargain collectively with each other.

11. **Great labor statesmen:** Organize the class as a committee to nominate three labor leaders of the past as Great Labor Statesmen. Ask individual class members to prepare briefs on leading candidates such as Samuel Gompers, John L. Lewis, Terrence V. Powderly, Walter Reuther, etc. After a general discussion, ask the class to vote for whom they think is greatest.

12. **Poem:** Reading Edwin Markham's short poem, "The Man With the Hoe," will give the students a deeper insight on the victims of economic conditions at the end of the 19th century.

13. **Time line:** Draw a time line for Milestones in American Labor History that begins in 1790 and ends the year before the one in which you are conducting the activity. The time line might include the Philadelphia Carpenters Union (1791), Mechanics Union Trade Association, Philadelphia (1827), Commonwealth vs. Hunt (1842), Molly Maguires (1854), Brotherhood of Locomotive Engineers (1863), National Labor Union (1866), Knights of Labor (1869), American Federation of Labor (1886), Congress of Industrial Organizations (1938), AFL-CIO merger (1955).

14. **Collective bargaining session:** After studying a union contract (such as the one in the appendix to Faulkner and Starr, *Labor in America*), the class may engage in role-playing by negotiating its own union contract. To accomplish this divide the class into management, labor and mediation committees. Items that might be considered would include hours and wages, vacation time, fringe benefits, a guaranteed annual wage.

15. **Role-playing:** Convert the class into a Convention of the State Grange preparing its platform for the election of 1896. Assign individual students to explain to the convention why the following planks should, or should not, be included in view of the fact that most farmers are perennial debtors: tariffs on manufactured goods, the gold standard, tight credit controls, free coinage of silver, regulation of railroads, government ownership of public utilities, a liberal land policy. By way of summary, let the class adopt a platform.

16. **Filmstrip:** *Labor Unions*, U.S. Economy in Action Series (1976) examines why and how labor unions have grown, and discusses the effects of unions upon wages, working conditions, and fringe benefits. (Color, cassette or record, teacher's guide; Educational Enrichment Materials)

17. **Film:** *The Rise of Labor* (1969) traces the history of the American labor movement. Provides an overview of the major attitudes held by management and government toward labor. Focuses on the events that vested labor unions

with bargaining power. Contrasts working conditions in a textile factory at the end of the nineteenth century with working conditions today. (Color, 30 min., teacher's guide; Encyclopedia Britannica Educational Corporation)

18. **Simulation-game:** "Strike" simulates late nineteenth century labor-management relations in two phases: Phase I culminates in either a strike, lockout, or fumbling attempts at collective bargaining. Phase II simulates a contemporary collective bargaining session. (Grade level: 7-12; playing time: 20 hours; no. of players: 20-40; Interact)

19. **Role-playing:** Select nine students to serve as justices of the Supreme Court hearing *Munn* v. *Illinois*. Choose two or three bright students to serve as attorneys representing the railroads and two or three to represent the State of Illinois. Let the rest of the class represent reporters. Ask the reporters to write a news item on the proceedings as homework.

20. **Film:** Show *Bargaining Collectively* to illustrate the reasons why a union asks for the right to bargain collectively with management. (10 min.; Teaching Film Custodians)

21. **Recording:** Play a recording of Bryan's "Cross of Gold" speech of 1896 to set the tone for a discussion of the Populist Movement. (Caedmon, *Great American Speeches*)

22. **Filmstrips:** Among the numerous filmstrips on labor and labor problems, the following is helpful:

    Collective Bargaining; Labor; Government and Labor (Stanley Bowmar Co., 4 Broadway, Valhalla, NY 10595).

23. **Film:** Show *Labor Comes of Age* to depict the growth of labor unions and the strengthening of collective bargaining. (19 min.; Encyclopedia Britannica)

24. **Film:** Show *The Labor Movement: Beginnings and Growth in America* to review the history of organized labor from the Civil War to World War I. (14 min.; Coronet)

25. **Book reports:** Ask interested students to read classic monographs on the farm problems of the second half of the nineteenth century, such as Buck's *The Agrarian Crusade*, Dale Kramer's *The Wild Jackasses: The American Farmers in Revolt*, or John U. Hick's *Populist Revolt*.

26. **Film:** *American Parade: We the Women*, examines the role of women throughout American history. (Color, 30 min.; BFA Educational Media)

27. **Committee report:** Create a committee on women and the economy in the nineteenth century to seek answers to the following questions:
    (a) How did the lives of nineteenth century workingclass men and women both resemble and differ from each other?
    (b) Did technological advances, such as the invention of the sewing machine, the telephone, and the typewriter, affect men and women differently? Explain your answer.
    (c) How did the removal of cloth production from the home affect men, women and the family?

28. **Analysis of a quotation:** "The development of a capitalist, industrial order in the United States segregated work physically and psychologically from the home. And, the rise of the helping professions stripped the family of functions it once performed." Explain the extent to which you agree or disagree with this quotation.

29. **Primary sources:** A market society generates a massive array of business records which reflect the economic conditions of an era, methods of production, and living conditions of the work force. Some of these records survive in family businesses and may be accessible to your students for use in class as individual or group reports. Examples are records relating to employees such as wages, job requirements, and practices of hiring and firing. The reality of discrimination becomes starkly apparent when job announcements include a statement of ethnic groups not permitted to apply, or when dismissal reasons are listed as "A Polack" or "Irish and Drunk."[6]

30. **Individual reports:** Ask the students to write two obituary notices, one for a woman who died in 1883, and one for a woman who died a hundred years later. Include such items as career choices, degree of economic security, community activities, and economic conditions. Students should use the information in the obituaries to answer discussion questions such as: How has the role of women changed in the last one hundred years? How did her environment (urban, suburban, or rural setting and home life) affect her?

31. **Individual report:** Suggest that a student investigate the treatment of the Indians after the Civil War. Questions to ponder include: In spite of the Dawes Act, the Indians could not adjust to the white American way of life, while European immigrants were usually successful in becoming Americanized. Why was this so? Would an American policy of "friendly co-existence" have worked with the Indians? Explain your answer.

32. **Problem for analysis:** The change from family farming to commercial farming started over one hundred years ago. Large farming organizations are now called *agribusinesses*. Why has the gradual disappearance of the family farm been a matter of concern?
    (a) Why is the family farm disappearing from our land?
    (b) Why might agribusinesses have lower production costs than small farmers?
    (c) Why is it difficult for small and middle-sized farms to compete with agribusinesses?

6. A few commercial publishers are marketing teaching packets on documentary sources. Perhaps the best known is the *Jackdaws* series published by Clark, Irwin and Company, Ltd., featuring attractive facsimile reproductions.

Topic 11

Business Concentration

Economic Facts, Concepts, Principles, or Problems

- Monopolistic practices
- Interstate Commerce Commission
- Sherman Act

WE TOUCHED UPON some of the problems concerning big business in earlier topics. The issues involved still cause friction today and deserve more intensive study. Bigness is not evil per se, but large firms generally enjoy more economic power than small firms, and that power is sometimes abused. The activities of some of the so-called robber barons of the late nineteenth and early twentieth century make for exciting reading. The battle for control over the Erie Railroad (1868) was fascinating, and would make an interesting (if somewhat extreme) case study. The terms **monopoly, oligopoly, monopsony, oligopsony, monopolistic competition,** and **concentration ratio** should be understood by the class.[1] Some of the possible effects of business concentration (higher prices, above-normal profits, less output, lower quality of products or service, and price and rate discrimination) should be noted. (Note too, however, that in some years large firms in highly concentrated industries operated at a loss, e.g., U.S. auto manufacturers in 1980, 1981, and much of 1982.)

It is possible to demonstrate that prices and profits tend to be higher and output lower in industries in which perfect competition does not exist. In college courses this is usually done by comparing the demand, marginal revenue, average total cost, and marginal cost curves of the firm in perfect competition with those of the monopoly firm. The result shows that the firm in perfect competition—and in long-run equilibrium—is producing at its most efficient position (the lowest point on its average total cost curve), and that the price of its product is just barely high enough to cover the cost of producing that product, including the necessary return to keep the factors of production in the industry. The monopoly firm, on the other hand, is not producing at the lowest point on the average total cost curve, the quantity of output is less than it would be in perfect competition, the price is higher, and the monopolist makes a pure profit; that is, the monopolist's return is greater than that necessary to keep the monopolist in the industry. It is *not* recommended that this analysis be introduced into high school courses except in those with very bright students. All students can understand, however, that monopoly power can mean higher prices for the things people buy and thus reduce the amount of money income available to buy other goods or services.

Most history texts set forth the complaints of farm organizations (such as the National Grange, formed in 1867) against the high rates charged by the railroads. State laws designed to control railroad rates were rendered ineffective by a Supreme Court ruling in 1886 that those laws could apply only within the state that enacted them. Railroads usually crossed state lines, so the Constitution's grant of the power to control interstate commerce to the U.S. Congress became important. The Interstate Commerce Act of 1887 and the establishment of the Interstate Commerce Commission are landmark events, although their impact was not as great as many had hoped. The ICC is still being criticized, and the present-day complaints might be examined and compared with the complaints of the farmers in the 1880s. Some of the other highly concentrated industries in the 1880s and 1890s were oil refining, coal production, gas utilities, and electric utilities. The value question, again, is the extent to which government should intervene in the economy to control the activities

1. The term **monopoly** is applied to the market structure of an industry that consists of one producer only. **Oligopoly** applies to an industry composed of just a few producers. **Monopsony** applies to a market structure in which there is but one buyer for an industry's output; **oligopsony** applies to a market structure in which there are relatively few buyers for an industry's output. The term **monopolistic competition** refers to an industry composed of a large number of variously sized firms producing a similar product. Because of differences in the product in advertising, packaging, and the like, not all the conditions of perfect competition are present. The **concentration ratio** is the percentage of total sales or output accounted for by the largest producers in an industry—for example, the top four or the top ten.

of big business, to promote competition, and to regulate **natural monopolies.**[2]

The various types of business concentration are not hard to understand. The **trust** was a common means of forming a monopoly in the 1880s. (Be sure to distinguish between the meaning of trust as a specific device and its colloquial use as a general term to refer to almost any type of business concentration.)[3] **Holding companies, gentlemen's agreements, price leadership, mergers,** and **pools** were also used to eliminate competition. A **holding company** is a corporation that gains control over other corporations by acquiring enough shares of stock to do so. (A holding company was not and is not illegal per se.) A **gentlemen's agreement** is an informal understanding that all participating firms will charge the same price or in some other way reduce competition among themselves. **Price leadership** is a situation in which one firm sets prices and the others follow along. A **merger** occurs when one corporation buys all the stock of another. Thus, the second firm goes out of existence as a separate corporate entity and all its properties belong to the remaining firm. (There were over 6,000 mergers in 1969, and about 2,500 in 1982.)

Although some mergers may be forbidden by government on the grounds that they unduly eliminate desirable competition, many mergers go unhindered. For example, a small firm on the verge of collapse that is acquired by a larger and stronger company may thus be enabled to continue to operate and to provide jobs. Sometimes mergers of two or more relatively small corporations have been sanctioned on the ground that this would lead to greater efficiency or enable them to compete with one or more huge corporations in the same industry. In **pools,** various firms in an industry agree to share the market and not encroach upon one another's territory. Large companies have sometimes formed patent pools, agreeing to share inventions with one another but not with smaller competitors.

Demands that government do something to control monopolistic practices came from farmers, small businesses, consumers, and workers. The Sherman Anti-Trust Act of 1890 outlawed trusts and other combinations that destroyed competition, but at first there was no effective means of enforcing it. And even now, in spite of subsequent antitrust laws and better enforcement provisions, there are many who believe that much more must be done to control big business. The Reagan administration, however, attempted to reduce many of these regulations and controls. Some economic studies have shown that excessive controls increase production costs and may thus help to raise prices.

The economic program of the Populist party (formed in 1892) should be studied in connection with the subject of business concentration. It is interesting to note that although the party went out of existence, many of its ideas eventually were adopted. Several leading political candidates in the early 1970s were putting forward populist ideas.

DISCUSSION QUESTIONS

Economic concepts, ideas, etc., that might be brought up in answering the questions are printed in **heavy type** (boldface).

1. Discuss the reasons why an "age of big business" developed in the United States after the Civil War.
   Favorable government attitude toward business; business concentration; small vs. large-scale businesses; tariffs; land grants; railroad subsidies; National Banking Acts.
   (a) Explain and illustrate ways in which large-scale business can be beneficial to the consumer.
   Economies of scale; mass production; technological progress.
   (b) Explain and illustrate ways in which large-scale business can harm the consumer.
   Monopolistic practices; elimination of small producers.
2. Americans have traditionally opposed monopolies.
   (a) Distinguish between monopoly and oligopoly, monopolistic competition and pure competition, administered prices and prices set in a free market.

2. Some industries by their very nature are not suited for perfect competition. That is, it is actually better (less costly, more efficient) that one firm be the sole producer. For example, consider how inefficient and wasteful it would be to have several gas or electric utilities build separate facilities to serve the same neighborhood. Public utilities are usually classified as natural monopolies, receive franchises from the government, and are regulated by a public service commission. Public utility regulation presents many problems; for example, the utilities are entitled to a "fair return," but what is a fair return?

3. A large oil company developed the trust as a specific monopolistic device. It had the stockholders of 40 different oil companies turn their stock over to a group of "trustees." The stockholders received trust certificates to show that they had given up their shares, and the trustees then had the power to control the 40 corporations, which still existed as separate corporate entities. The effect, of course, was the same as if the 40 firms had merged into one, and the public was not deluded by this arrangement. When the courts found the trust to be illegal, monopolists turned to the holding company and other techniques of eliminating or diluting competition.

(b) Explain how the following can encourage the development of a monopoly: a patent, a scarce supply of natural or raw materials, the need for great quantities of capital to start an enterprise.
Natural monopolies; public utilities; patents and copyrights; legal monopolies.

3. How do business firms grow and expand?
Internal growth through reinvestment of profits; horizontal and vertical combinations; mergers; conglomerates.

(a) Why do expanding firms often combine with other firms?
Economies of scale; price fixing; community of interest; monopoly practices.

(b) What forms do business combinations take?
Mergers, pools, trusts, holding companies, cartels, gentlemen's agreements, interlocking directorates, trade associations.

(c) Why did the regulation of big business become a concern of the federal government?
Failure of state regulation; interstate commerce power; monopolistic abuses.

4. Discuss the principal informal and formal methods of putting together business combinations.

(a) Describe some of the problems sometimes created by the concentration of business and industry.
Higher prices; poor quality goods and services; destruction of competition; excessive influence over government.

(b) How does big labor and big government serve as "countervailing power" to big business?
Large unions and government help to limit possible harms wrought by large-scale business.

5. What factors influence the prices that monopolists charge?
Production costs; limits on supply (causing price to rise); elasticity of demand; potential competition; possibility of substitute products; fear of government intervention.

6. Explain how the organization and growth of the Standard Oil Trust or the United States Steel Corporation illustrate both the advantages and disadvantages of business concentration.
Economies of scale; expansion of market; research and development; effects on competition.

7. "Bigness in business can be a blessing and a curse." To what extent do you agree or disagree with this statement?
Economies of scale vs. possible abuses of concentrated industries.

8. What are some ways in which the development of big business in the United States since the Civil War affected each of the following?

(a) Labor.
Automation; complex division of labor; rise of industrial unions; effect on real wages.

(b) The farmer.
Mechanization of farm production; agricultural revolution.

(c) City life.
Urbanization; improvements in transportation and communications.

(d) Education.
Increased specialization; need for highly trained manpower.

(e) United States foreign policy.
Expansion of export markets; foreign investments; multinational firms.

9. Explain how the Granger Movement was transformed from a social to a farmer's reform movement.
Economic complaints of farmers; industry vs. agriculture.

10. Why do large industrial corporations engage in R & D (research and development)?
Technological advance; production costs; search for new markets; consumer demand.

(a) How might R & D increase the profits of a company?
Reduce production costs; create new markets; gain competitive advantages.

(b) How might R & D affect our standard of living?
New and better products; possibly lower costs; stimulate economic growth.

11. Why was the Sherman Act passed?
Monopolies; weaknesses of state regulation; growth of big business.

(a) State the provisions of the Sherman Act.

(b) How did these provisions and the procedures for enforcement differ from those of the Interstate Commerce Act?
ICC as regulatory agency; role of antitrust division of Justice Department; Federal Trade Commission; views and policies of various presidents toward antitrust.

12. In the 1860s there was great enthusiasm on the part of the public for the new railroads. Twenty years later there arose a great clamor for their regulation.

(a) Why was enthusiasm for the railroads greatest west of the Mississippi?
Importance of transportation and communication in economic development; infrastructure and social capital; production costs.

(b) How did the federal government aid railroad construction?
Government's role in promoting economic development; subsidies; land grants.[4]

4. For two sides of the land grant question, see Gerald D. Nash, ed., *Issues in American Economic History*, 2nd edition (Lexington, Mass.: Heath, 1972), pp. 286–292.

(c) Describe the abuses that led to the clamor for railroad regulation.
Pooling; rebates; poor service; charging more for short hauls than for long hauls; weaknesses of state regulation.[5]

(d) Why did the farmers hail the passage of the Interstate Commerce Act as a significant victory?[6]

(e) What is meant by "the multiplier effect" of the growth of the railroad network?
Railroads created new markets, opened up new farm lands; made for greater specialization; promoted economic growth.

13. It has been said that the average Americans of today accept big labor, big-company price leadership, mergers, etc., as economic facts of life about which they can do very little. Do you agree? Defend your answer.

14. What economic groups in the United States accepted the ideas of laissez faire and social Darwinism?
Middle and upper classes; entrepreneurs.

(a) How did laissez faire affect the American economy?
Growth of monopoly; uneven distribution of wealth; abuses affecting consumers, competitors, labor; cut-throat competition.

(b) Why were reform leaders able to get only limited support from workers?
Individualism; self-reliance; absence of strong unions.

ACTIVITIES

1. **Class discussion:** Play the sound recording, *Industrial Growth: 1865–1900* to motivate informal discussion about the following topic: American Business Leaders: Robber Barons or Industrial Statesmen? The sound recording deals with Andrew Carnegie, John D. Rockefeller, Samuel Gompers, Eugene V. Debs, Ignatius Donnelly, and Oliver H. Kelley. Other discussions that could be motivated by this recording might be: "The Rise of American Organized Labor" and "The Agrarian Crusade."

2. **Sociodrama:** Organize the class into a senatorial investigating committee to inquire into the activities of one of the "robber barons" of the post-Civil War period. Witnesses can be summoned, and a report drawn up after the hearing for presentation to the class for discussion.

3. **Student reports:** Ask students to engage in library research and report on one of the following topics:
   - John D. Rockefeller and the Standard Oil Trust
   - The House of Morgan
   - Andrew Carnegie and the Steel Industry
   - Andrew Carnegie, Philanthropist
   - Contributions of Immigrants to Economic Life
   - Builders of the Transcontinental Railroads

4. **Cartoon:** Draw a cartoon or poster advocating regulation of trusts in the public interest.

5. **Graph:** Prepare a graph depicting the increase (or decrease) of railroad mileage by decades from 1870 to 1980. For data consult the *Statistical Abstract of the United States.*

6. **Oral report:** Ask a bright student to prepare an oral report on third parties in American history. Ask the student to include an explanation of why they arose, the issues they faced, their strengths and weaknesses, and their ultimate fate.

7. **Student reports:** Ask your students to engage in library research and report orally to the class on the following topics:
   - Civil Service Reform
   - Political Scandal and Corruption during Grant's Administration
   - The Rise of the Granger Movement
   - Battle for the Control of the Erie Railroad (1868)
   - The New South
   - The Evils of Child Labor

8. **Cartoon:** Have the students draw a cartoon portraying one or more aspects of the farmers' grievances against the railroads during the 1870s and 1880s.

9. **Editorial:** Ask the students to write an editorial for a labor union publication in which they praise the Sherman Anti-Trust Act of 1890, but also point out some of its weaknesses.

10. **Simulation:** Convert the class into a meeting of the local Grange in the early 1880s called to discuss a rise in railroad rates. Let one student present a talk on the abuses practiced by the railroads at the farmers' expense, another to describe proposals to regulate the railroads by state action, and a third to advocate federal regulation. After discussing the issues, have the Grange draft a resolution proposing a solution to the problem.

11. **Time line:** Ask the students to draw a time line indicating the steps in railroad regulation that culminated in the In-

5. Many texts grossly simplify the railroad rate situation. For a brief but very scholarly exception, see Robert Higgs, *The Transformation of the American Economy, 1865–1914* (New York: Wiley, 1971), pp. 87–90.
6. For a good account of the farmers' complaints, and an objective evaluation of those complaints, see Higgs, ibid., Chap. 4. Note, also, that the railroad industry itself sponsored legislation that would give the ICC new powers to reduce price discrimination, although this came after a period of price cutting. See Harvey C. Bunke, *A Primer on American Economic History* (New York: Random House, 1969), p. 124.

terstate Commerce Act of 1887. The time line might include *Munn* v. *Illinois*, the Granger laws, *Wabash Railroad* v. *Illinois*, and the Interstate Commerce Act.

12. **Field trip:** Plan a field trip to a large industrial plant or department store in your community to provide first-hand information about the nature of business under a free market system. Depending upon the nature of the enterprise, the students can study and report on one or more of the following: the processes involved (mass production, standardization, scientific management, automation, etc.); the role of management; the role of research and development. A class discussion on the following day is an excellent follow-up.

13. **Filmstrips:** Show selected reels of *Big Business and Labor (1870–1917)*, a series of 15 "critical thinking filmstrips," produced by Modern Learning Aids.

14. **Game:** *Big Business* simulates the unregulated growth of large-scale business in the United States in the late 1800s. Each student is given a fixed amount of resources in order to run either a steel, oil, railroad, or banking company. These companies compete with one another in order to sell their products and services to the public. By using methods employed by business leaders in the late nineteenth century, students learn how some businesses grew to very large scale during this period. (Playing time: 3–4 hours. No. players: 18–40; History Simulations)

15. **Film:** *Rise of Industrial Giants*. Post-Civil War economic history of the United States; the rise of industrial giants, including Carnegie, Rockefeller, Edison, and J.P. Morgan; and the response of government, labor, farmers to increasing industrial concentration. (Color; McGraw-Hill Films)

16. **Filmstrip:** *Corporations* (1983) examines the development of private enterprise in the nation's history as background for an understanding of the current trend toward big corporations. Both the pros and cons of big corporations – and their influence – are considered. (Two color filmstrips, two cassettes, teacher's guide; Social Studies School Services)

17. **Film:** Show *Growth of Big Business in America (1865–1900)* to depict the growth of businesses in the railroad, steel, and oil industries in the United States from small beginnings to very large size and, why, as a result of such development during that period, 1865–1900, Congress passed antitrust laws, beginning with the Sherman Act. (16 min.; Coronet)

18. **Role-playing:** To illustrate the combination movement of the late nineteenth century, organize an imaginary bicycle manufacturing corporation in class. (Draw up a charter; issue stock; hold a stockholders' meeting; choose directors and officers). During the stockholders' meeting, suggest the creation of a holding company to unite similar bicycle manufacturing corporations that students have organized in your other classes. The discussion should bring out the advantages and disadvantages of this, and other, kinds of combinations.

19. **Film:** *Money on the Land* (Alistair Cooke's America Series). Describes the era of the great tycoons, including Carnegie, Rockefeller, and Vanderbilt. (16 mm, color, 51 min.; Time-Life Corporation)

20. **Filmstrip:** "Industrial America," *America Comes of Age, Part II*. Depicts the economic and social conditions during the Gilded Age. (Black and white; sound; Scott Education Division).

21. **Problem for analysis:** Fifty years ago the "captains of industry" who built industrial America in the late nineteenth century, were called robber barons because of the high-handed way in which they treated their workers and the public. In recent years, however, as Americans became conscious of the problems of economic development in the "Third World" countries, the reputation of these entrepreneurs has risen. Compared with the experiences of developing nations, our industrialization was relatively painless and eminently successful. Were the nineteenth century entrepreneurs ruthless exploiters or foresighted builders?
    (a) Cite examples of high-handed treatment of labor and the public by nineteenth century entrepreneurs.
    (b) Why was the process of economic development less painful in the United States during the nineteenth century than it is in the twentieth century for nations trying to develop economically?
    (c) To what extent was the public, acting through government, able to curb "big business" before World War II?
    (d) Is the regulation of big business a persistent economic problem in the United States? Explain your answer.

Topic 12

The Reforms of Theodore Roosevelt

Economic Facts, Concepts, Principles, or Problems

- Trust busting
- Conservation and environmental pollution
- Food and drug legislation
- Meat Inspection Act

IT IS PROBABLE that most people today are concerned about pollution and the **conservation of natural resources**. Many teachers are finding that their students are deeply interested in environmental problems and they are capitalizing upon this interest. Almost daily, there are reports in newspapers or on newscasts of pollution of water, land, or air. The following table dramatically illustrates how serious the air pollution problem can become.

DEATH TOLL FROM THERMAL INVERSIONS[a]

Date	Place	No. of Deaths
1930	Meuse Valley, Belgium	63
1948	Donora, Pennsylvania	20
1952	London, England	4,000
1953	New York, New York	200
1956	London, England	1,000
1962	London, England	300
1963	New York, New York	400
1966	New York, New York	80

[a]Deaths occurring daily in urban areas as a result of continuing air pollution are not included—only those deaths "in excess of normal." The deaths are for human beings only. In the Donora episode, 800 animals were also killed by the polluted air.

Pollution is part of the general problem of conservation, and conservation can be studied in relation to the policies of President Theodore Roosevelt. Although others before him had been concerned that we were wasting our natural resources in a dangerous fashion, Roosevelt was more inclined to take firm action. Some students might be interested in studying Roosevelt's life to see how and why he became interested in this problem.

The concept of **scarcity**, which is so basic to the study of economics, is clearly applicable to the topic of conservation. Here we are often dealing with *nonrenewable resources*. (In technical terms, the supply is **inelastic**—it cannot be increased. The supply curve is a vertical line.) The demand for such things as water and revenue-producing land is increasing, but nature has given us a relatively fixed supply. Note what happens to the price of a given piece of land when there is intense competition for it. A lot that might have had a market value of a few hundred dollars when it was being used for agriculture may be worth many thousands of dollars when the area becomes urbanized and that land is wanted by builders of houses, large retail chains, or manufacturers. Examples should be easy to find in almost any community.

Roosevelt told Congress in 1901, "The forest and water problems are perhaps the most vital internal problems of the United States." He held a Conservation Conference at the White House, attended by Cabinet members, judges, members of Congress, and governors. A National Conservation Commission set up under the chairmanship of Gifford Pinchot made a systematic study of mineral, water, forest, and soil resources. Roosevelt set aside over 148 million acres of forest lands and 80 million acres of mineral land. About 1.5 million acres of water-power sites were withdrawn from public sale so that they could be conserved for the future.

The topic of conservation can be broken down into water, soil, forest and grass, mineral, and wildlife conservation. Pollution is often divided into air, water, solid waste, and noise pollution for purposes of study and analysis. Among the economic factors to be considered are the increasing demands for our resources,[1] the costs of pollution damage, natural resources as productive inputs, causes of waste and inefficiency in resource utilization, and various proposals for coping with the problem. Among the value questions to be discussed are these:

To what extent should government take action to deal with the problems?

To what extent should business, the taxpayer, and the consumer bear the responsibilities and the costs of controlling pollution?

1. For example, total water use rose from 40 billion gallons a day in 1900 to over 411 billion gallons a day in 1970.

To what extent should state and local governments assume responsibility?

How much of the conservation and pollution problems should be solved by the market system?

The conditions existing in Roosevelt's day can be compared with conditions today; his policies can be compared or contrasted with current policies and proposals.

Roosevelt was also concerned about **monopolistic practices.** Thus, the problem discussed in Topic 11 can be carried over into Topic 12. Roosevelt was not opposed to big business per se, but attempted to prevent huge corporations from abusing their power. The Bureau of Corporations was set up to investigate and report on the actions of large firms. The Department of Commerce and Labor was established, and further controls were placed upon the railroads to see that everyone paid the same rates. Roosevelt's antitrust policies and actions can be evaluated and compared with those of more recent administrations.

The consumer was not forgotten either. Thanks to Upton Sinclair's novel *The Jungle* (1906), which described abominable conditions in meat-packing plants, and the discovery by a government physician that harmful substances were being put into certain drugs, medicines, and canned goods, legislation was enacted to require government inspection of all meat sold in interstate commerce and the labeling of food and drug products with a list of their ingredients.

Consumer protection is still a controversial issue. To what extent does the consumer really control the amount, kind, and quality of goods and services produced in our economy? How far should government go in protecting the consumer? The consumer's role in our economy can be examined in detail at this point.

THE PERIOD IN United States history we are now considering also offers opportunities to relate economics to foreign affairs. In Britain's dispute with Venezuela over the boundary line of British Guiana, the discovery of gold in the contested area caused Britain to shift the line she had been willing to accept as the legal boundary. In 1895, President Cleveland's secretary of state, Richard Olney, warned Britain that the United States would consider British pressure on Venezuela to be a violation of the Monroe Doctrine. Olney seemed to be using "economic muscle" when he stated that our "infinite resources" helped to make us "master of the situation and practically invulnerable as against any or all other powers."

Roosevelt, too, did not hesitate to flaunt the economic and military might of the United States. In 1902 the United States prevented Britain and Germany from using force to collect debts from Venezuela. In 1904 Santo Domingo (now called the Dominican Republic) found itself burdened by debts to European powers. The United States refused a Belgian proposal that we join in seizing all customhouses and that Santo Domingo be governed by an international commission. (Customhouse receipts had been pledged to various creditors with the proviso that in the event of default the creditors could demand control of the customhouses.) When American companies were given preferred treatment over other creditors in debt repayment, Europeans protested and another armed intervention seemed imminent. To forestall this, Roosevelt proclaimed his so-called Roosevelt Corollary to the Monroe Doctrine, asserting that the United States must "exercise . . . an international police power" to prevent "flagrant cases of wrongdoing. . . ." It was the moral obligation of the United States to force the "wretched republics" to pay their debts, and in 1905 Santo Domingo agreed to have the United States administer the customs and manage the debt payments.

It is interesting to note how United States involvement in the world economy has developed over the years. Nations still have problems with foreign debts, and many of these problems affect the United States. How such problems are handled today as contrasted with the approach taken during Roosevelt's administration might make a fascinating subject for study. For example, in 1982–83, when Mexico was having difficulty in handling its debts to other nations, how did the United States respond? Why was assistance to debt-burdened nations rather than an exercise of "police power" considered to be the wiser course of action?

DISCUSSION QUESTIONS

Economic concepts, ideas, etc., that might be brought up in answering the questions are printed in **heavy type** (boldface).

1. Discuss the factors in the United States that led to the disappearance of the frontier in 1890.
   Land as a factor of production; law of diminishing returns; frontier.

   (a) Discuss three important results of the passing of the frontier.
   End of "free land"; need for conservation; immigrants concentrating in cities.

   (b) What is meant by the statement that there are still "frontiers" in American life?
   Innovation; social reform; quality of life.

2. Explain how conservation of natural resources is related to (a) farming, (b) mining, (c) recreation.
Natural resources as factors of production; supply of land; extractive industries; demand for natural resources; ecology; pollution.

3. How do natural and human resources contribute to a nation's strength?
Resources and productive capabilities.

   (a) Differentiate between natural and human resources.

   (b) What kind of natural and human resources does the United States need (1) as a world power and (2) as a nation with a rising level of living?
   Renewable and nonrenewable resources; conservation; economic growth.

   (c) Why is the protection of our natural environment everyone's responsibility?

4. How did each of the following affect the conservation of natural resources? (a) Reclamation Act (Newlands Act) of 1902; (b) Governor's Conference of 1908; (c) Teapot Dome scandal; (d) Tennessee Valley Authority; (e) Civilian Conservation Corps.

5. What role did Gifford Pinchot and Theodore Roosevelt play in the conservation movement?

   (a) What aspects of the protection of our natural environment were of particular interest to Theodore Roosevelt's generation?
   Mineral lands; forests; water; wildlife conservation.

   (b) What kinds of environmental problems are of special interest to your generation?

   (c) In your opinion, which of the nonrenewable resources are most vital to the life-support systems of "Spaceship Earth?" Defend your point of view.

   (d) In 1901, Theodore Roosevelt told Congress: "The forest and water problems are perhaps the most vital internal problems of the United States." If he were alive today, what other environmental problems might he include in a message to Congress? Why?

   (e) Compare the conservation issues of the early 1900s with the environmental concerns of the 1980s, and the measures taken by Roosevelt and Taft with those undertaken by Presidents Lyndon B. Johnson, Richard M. Nixon, and Gerald R. Ford.
   Supply and demand of natural resources; effects of growing population and industry; costs of pollution; growth of government involvement in economic problems.

   (f) Explain the attitude of the Reagan administration toward undeveloped mineral lands that are in the public domain.

6. Why is the heedless destruction of forests called "a crime against posterity"?
Supply of natural resources; demand for resources in future; recycling.

7. Discuss the reasons why the conservation of natural resources is more important today than it was 100 years ago.
Supply and demand factors; economic growth; population growth.

   (a) Discuss ways in which the federal or state governments have promoted conservation.

   (b) How can you as an individual promote wiser use of natural resources?
   Recycling; efficiency in resource use; control of economic waste.

8. Explain what Theodore Roosevelt meant by a "Square Deal" for business and labor.
Government role in labor disputes.

9. To what extent did President William Howard Taft continue the policies of Theodore Roosevelt?
Antitrust policy; labor relations.

10. Why did Theodore Roosevelt intervene in the Anthracite Coal Strike of 1902?
Effects of labor disputes on the general public; government's role.

   (a) On what grounds did Roosevelt intervene?

   (b) What was the outcome of the conflict?

   (c) Was his intervention a true indication of his feeling toward unions? Explain your answer.

11. Why was it difficult for the government to control business combinations under the Sherman Anti-Trust Act?
Vague language of the act; various forms of business concentration; varying interpretations of the act.

   (a) How did Roosevelt distinguish between "good" and "bad" trusts?

   (b) Did Roosevelt really deserve the title of "trust buster"?

   (c) Today, would the Supreme Court break up a combination of railroads such as that involved in the Northern Securities case? Defend your answer.

12. Who were the muckrakers?
Social reforms; economic reforms; consumerism.

   (a) How successful were the muckrakers in bringing about immediate worthwhile economic reform? Long-range economic reform?

   (b) Do we have muckrakers in the 1980s? If so, name some of them and the reforms they are seeking.
   Consumer protection; redistribution of income; poverty; welfare; pollution.

13. Explain the role that Upton Sinclair's novel *The Jungle*

played in the passage of the Meat Inspection Act of 1906. What were the provisions of that act?
Government intervention in the market; consumer protection.

14. Discuss the reasons for the passage of the Pure Food and Drug Act of 1906. What were its provisions? What were its strengths and weaknesses?

15. How did each of the following change the interpretation of the Monroe Doctrine? What role did economics play in each? (a) Venezuela boundary dispute of 1895; (b) Venezuela debt default difficulties of 1902; (c) Santo Domingo debt default of 1904.
Economic imperialism; foreign investments; bonds; dollar diplomacy.

16. Discuss the economic background of the United States policies toward Latin American countries before World War II.

    (a) Explain the attitude of the Latin American countries toward the Monroe Doctrine in the nineteenth century. Why did this attitude change during the first three decades of the twentieth century?

    (b) Why did the United States want to build the Panama Canal and control the Canal Zone?
    Relationship between economic interests and foreign affairs.

17. To what extent was trust busting effective in preventing a rise in the number of business combinations?

    (a) To what extent was regulatory legislation effective? Justify your answer.

    (b) Does bigness necessarily mean badness? Explain your answer.

18. Why are most Americans reluctant to modify or abandon the current economic system?

19. (a) Why do some businesses favor business combination?
    Control over prices, production, and markets.

    (b) Why does the general public oppose them?
    Abuses of monopoly power; fear of higher prices, poor service, smaller choice.

    (c) Describe the most common forms of business combination in the nineteenth century.
    Pools, gentlemen's agreements, trusts, trade associations.

    (d) Describe the most important forms of combination in the twentieth century.
    Mergers; conglomerates, cartels, multinational corporations.

ACTIVITIES

1. **Bulletin board display:** Ask your students to prepare a bulletin board display entitled "The Fight for a Good Environment: Yesterday and Today." The display might consist of pictures, drawings, charts, diagrams, thumbnail biographies of outstanding leaders, signs, slogans, etc., pointing out targets of environmentalists and suggesting solutions to environmental problems.

2. **Book report:** Ask a bright student interested in environmental problems to read and report on *Only One Earth* by Barbara Ward and René Dubos (New York: Norton, 1972), a study prepared for the United Nations Conference on the Human Environment at Stockholm in June 1972.

3. **Book reports:** Students may be willing to read, review, and report orally in class on books written by muckrakers. A list follows:

    Lincoln Steffens, *The Shame of the Cities*
    Upton Sinclair, *The Jungle*
    Thomas Lawson, *Frenzied Finance*
    Ida M. Tarbell, *History of the Standard Oil Company*
    Frank Norris, *The Octopus*
    Frank Norris, *The Pit*

4. **Glossary:** Prepare a glossary of ecological and conservation terms such as salvage, recycling, efficient extraction, pollution, bird sanctuary, wetlands, migratory birds, national forests, etc.

5. **Cartoons:** Ask your students to draw cartoons bearing titles such as the following:

    Theodore Roosevelt – Trustbuster
    Theodore Roosevelt – Conservationist
    Theodore Roosevelt – Canal Builder

6. **Bulletin board display:** Ask your students to prepare a bulletin board display entitled *Muckraking – Then and Now.* It might consist of pictures, charts, and headlines, slogans, etc. pointing out the targets of the reformers and suggesting solutions.

7. **Panel discussion:** Ask the class to imagine itself a reform society discussing the need for urban reforms during the Roosevelt Era. Ask selected students to report on housing, disease, crime, and the lack of adequate medical and recreational facilities, and to report on reforms suggested by the Progressives.

8. **Senatorial investigation:** Let the class imagine that it is the U.S. Senate at the turn of the century. Let the "Senate" appoint committees to investigate conditions in the stockyards, slaughter houses, and meat-packing plants, as well as food and drug abuses. After each committee has heard

witnesses and made recommendations, ask the "Senate" to draw up remedial legislation.

9. **Filmstrip:** Show *Muckrakers and Reformers* to teach the concerns of the Progressive Era. (Sound; Multi-Media Productions)

10. **Filmstrip:** Show *Theodore Roosevelt, 1858–1919* for a vivid account of the man and his times. (Color, record; Electronic History, Inc.)

11. **Research project:** Ask an interested student to investigate the food and drug reform movement resulting in the Meat Inspection Act of 1906 and the Pure Food and Drug Act of 1906. One "contemporary" source is Mark Sullivan's *Our Times*, vol. II, pp. 471–552.

12. **Camera hunt:** Amateur photographers in a class may enjoy a camera hunt of good—or poor—environmental practices, to include as part of a bulletin board display.

13. **Recording:** Play "Progressive Reformers: 1900–1920" to create the atmosphere for the muckraking era and the economic, social, and political reforms that emerged from it (2 LPs). Source: Great Men and Great Issues Series.

14. **Game:** "Trade-Off: The Land Use Planning Game" by George L. Wyatt and Charlotte T. Harter (Corvallis, Oregon: Oregon State University, 1979). Can be used when teaching about the growing scarcity of land in expanding communities during the Progressive Era and beyond. This is a three-hour game for grades 9-12. The goal of the players is to develop a healthy economy while protecting the environment. (Grade level: 9–12; playing time: 3 hrs.; price: $25.00)

15. **Film:** *Preserving Our American Wilderness* (1971) discusses efforts of the federal government to preserve the remaining wilderness areas threatened by developers in search of minerals, gas, oil, etc. (Color, 10 min.; Films Incorporated)

16. **Film:** *Problems of Conservation—Our Natural Resources* treats the developing crisis in depletion and destruction of our natural resources caused by pollution, population increases, rising levels of living. (Color, 11 min.; Encyclopedia Britannica Educational Corporation)

17. **Sociodrama:** Simulate a press conference with Theodore Roosevelt during the Governors' Conference on Conservation. Cast a good student in the role of President Roosevelt and assign the roles of reporters to several other students. Follow the press conference with class discussion.

18. **Book report:** Ask a good student to present a brief oral report on the personality and accomplishments of Theodore Roosevelt as reported in Pringle's *Theodore Roosevelt: A Biography*.

19. **Film:** *Theodore Roosevelt* covers the major domestic and foreign problems of the 1890s and early 1900s. (16 mm, black and white, 26 min.; McGraw-Hill Textfilms)

20. **Filmstrip:** *Turn of the Century* describes the public career of Theodore Roosevelt. (Color; McGraw-Hill Textfilms)

21. **Filmstrip:** *Theodore Roosevelt: A Portrait of Power* (1981) discusses T.R.'s career as soldier, explorer, author, President. (Color, cassette, teacher's guide; Social Studies School Service)

22. **Filmstrip:** *Trust Busting* (1982) examines the judicial and legislative action taken against industrial monopolies during the trust busting era. (Color, cassette, teacher's guide; Social Studies School Service)

23. **Filmstrip:** *Muckrakers and Reformers* deals with muckraking journalists and reformers of the Progressive Era (1900–15). (Multi-Media Productions)

24. **Simulation:** "The Progressive Era." Teams of students representing such groups as farmers, laborers, owners of small businesses, and liberal reformers, draw up "progressive programs" on nine different problems that faced America in the 1890s: business monopolies, corrpution in government, women's rights, conservation, city problems, labor problems, consumerism, farm problems, and inequality in the distribution of wealth. The entire class forms a government, produces "muckraking" articles, and attends "pressure meetings." They then elect state legislative representatives who study the practicality of the proposed solutions. (Players: 13–37; Time: 4 hours; Social Studies School Services)

25. **Documentary sources:** Advertisements for merchandise provide many clues as to how people lived. Students may have access to newspaper files of the 1890s and 1900s. Advertisements for patent medicines, for example, can provide dramatic background for the passage of the Pure Food and Drug Act of 1906. Sexual stereotypes also become apparent. For example, women in the Gilded Age are pictured as weak and frail (unlike the robust pioneer women), and in need of such conveniences as an electric motor washer which not only cleans clothes but "saves women's lives."

26. **Problem for analysis:** Conservation problems, which attracted so much public attention during Theodore Roosevelt's administration, persist today. For example, in the past decade or so, various water shortages in various parts of the country have pointed up the need for developing new sources of water, including desalinization of seawater and more effective use of existing water supplies. If a particular state approves a costly program of research and experimentation, two methods might be feasible to cover the costs of the program: a 2 percent sales tax on all purchases; an increase in the tax rate on incomes over $10,000. How would the alternative taxes (sales tax or a higher income tax rate) affect the following: Consumption? Prices? Savings? Incentives to work? Economic growth?

Topic 13

Wilson and the New Freedom

Economic Facts, Concepts, Principles, or Problems

- Clayton and FTC acts
- Federal Reserve System
- Income tax

SEVERAL MAJOR ECONOMIC issues should receive considerable attention in any study of Woodrow Wilson's administration. If the class has already been introduced to taxation (as in Topic 2), banking (Topics 6 and 8), labor problems (Topic 10), and business concentration (Topics 11 and 12), a unit on Wilson's domestic policies will not only provide reinforcement but enable the teacher to delve more deeply into economic concepts related to the material in these topics.

On business concentration, Wilson stated: "We must see to it that the business of the United States is set absolutely free of every feature of monopoly." Roosevelt and Taft had used the Sherman Act of 1890 to attack large business combinations, but the wording of the law was vague and means of evading it were found. The Sherman Act did not say exactly which business practices were legal and which were not. Decisions on the law's intent were left to the courts, which were often favorable toward big business. The Clayton Antitrust Act, passed in October of 1914, listed practices that would be considered illegal – **price discrimination** tending to create monopoly, **tie-in contracts, interlocking directorates,** and the acquisition of stockholdings that tend to reduce competition. The Federal Trade Commission was established to act as a "watchdog" over business. The FTC was empowered to demand annual reports from corporations, investigate their activities, publish reports on its findings, and to issue "cease and desist" orders to prevent unfair business practices.

The development of antitrust policy and enforcement is a good topic for research. What problems regarding business concentration do we have today? Are the existing laws and agencies adequate? Should we adhere to Theodore Roosevelt's belief that big business concentrations are not harmful as long as they are under federal regulation, or to Woodrow Wilson's idea that government should put an end to large business concentrations? Or should government stop trying to regulate business and let the economic system work without interference?

In discussing the effects of business concentration or the question of how large businesses should be allowed to get, it is imperative that the students understand the concept of **economies of scale** – the fact that in some cases unit costs of production **decrease** as firms become larger.[1] Of course, there are also **diseconomies of scale** when a firm exceeds its optimum size and unit costs then begin to rise.[2] Another factor to consider before making judgments about a firm that is a monopoly to one degree or another is the **elasticity of demand** for its output. A monopoly in food, essential drugs, or other items that are absolute necessities is far more harmful than one in luxury goods. The demand for essential goods is generally **inelastic** – people must buy the products even if prices soar. A monopolist producing essential goods can reap huge profits at the public's expense. A monopoly producing luxuries, however, may find that sales drop drastically if it sets prices too high. In this case, the demand for the product is **elastic** – the percentage drop in sales will be greater than the percentage increase in price and the firm's revenues will actually decline if it raises prices.

In assessing the extent to which a monopoly is harmful, economists will also look at **cross-elasticity** effects. This term refers to the change in sales of product *X* when the price of product *Y* has changed. For example, if a monopolist gets control of all the butter in a given market and raises the price of the butter, we can expect sales of margarine to increase because many buyers will accept margarine as a reasonable substitute for butter. Thus, the harm a butter monopoly can inflict is limited because a substitute product is available. The teacher must decide whether or not a given class can grasp the concepts discussed in this and the preceding paragraph, but in any event it is important that careful analysis

1. There are several reasons why a firm may become more efficient as it increases in size, and hence have lower unit costs and be able to charge lower prices. Greater specialization is often possible in the larger firm; it may be able to afford better equipment; it may be able to engage in more research; it may enjoy market advantages, such as receiving discounts because it can buy in quantity.
2. One possible reason is that a firm can become too large to be managed efficiently.

rather than snap judgments be made in examining such problems.

WILSON SAW THE need for banking reform. The Pujo Committee (a subcommittee of the House Committee on Banking and Currency) had been set up in 1912 to examine charges that a "money trust" existed in the United States. The committee found that concentration in the control of money and credit was indeed increasing, and its report strengthened the incoming Wilson administration in its program of currency and banking reform. The system set up under the National Banking Acts (see Topic 8) was not a total failure, but it had serious weaknesses. Reserves were not held by a central bank (there was no provision for a central bank in the act), and the law permitted banks to deposit three-fifths of their reserves in other banks.[3] The average level of required reserves was quite high, unnecessarily restricting the volume of loans country banks could make. There was no means of creating additional reserves in times of financial panic nor of helping banks in distress. Numerous bank failures and suspensions during the financial crises of 1873, 1884, 1893, 1903, and 1907 clearly illustrated the problem.

A brief review of previous events in American banking history would be helpful at this point, and the students should be reminded of the first and second banks of the United States. If earlier lessons dealt with the role of central banks in general, it is important here to go into their functions in greater detail. In 1913, the two major political parties agreed that some sort of central bank was needed; the debate was over the form it should take. The Federal Reserve Act of 1913 provided for twelve regional banks. Each bank's nine-member board of directors must consist of persons who represent borrowers (such as business managers, farmers, or other nonbanking occupations) and the general public as well as bankers. A board of governors was established in Washington, D.C., and this board, which includes representatives from the regional banks, has gradually assumed the major policymaking functions of the Federal Reserve System.

The Fed's structure should be examined and explained in detail. Changes that have taken place in the Fed's powers and functions over the years can be traced, with explanations for each major change given to or sought by the class. Of course, the major instruments of control (reserve requirements, open-market operations, and the discount rate) should be clearly understood, and the use of **monetary policy** as a means of helping to stabilize the economy (preventing inflation on the one hand or deflation on the other) ought to be clear to every American. The nature of the U.S. **money supply** (including the role of **demand deposits**), how and why the money supply has recently been changing in amount and character, and the Fed's powers to control the money supply should be treated in some detail. The historical strengths and weaknesses of the Federal Reserve system might be set forth, although this topic might be more meaningful when the class comes to study the depression of the 1930s.

TAXATION WAS ANOTHER key issue during the Wilson administration. An income tax had been levied during the Civil War, but later the Supreme Court decided that income taxes were unconstitutional. The students may be amazed when they discover that it was the average citizens and those who spoke for them who demanded an income tax law. The Sixteenth Amendment, which permitted Congress to pass such a law, was ratified in 1913. A tax of 1 percent was thereupon levied on incomes between $3,000 ($4,000 for married men) and $20,000, and rates on incomes above $20,000 increased until they reached 7 percent on incomes above $500,000. These rates can be compared with those of today, and the class might try to decide whether our income tax has become more or less progressive over the years. (Consideration should also be given to the extent to which we expect government to perform services for us today as compared with the past, the rising cost of services provided by the government, and other factors that help to explain government's expanding role in the economy.) To turn to another kind of tax, the Underwood Tariff of 1913 placed iron, steel, raw wool, sugar, and some other agricultural goods on the free list and reduced duties on others. Rates on some products were raised, however, and U.S. tariffs, in general, remained highly protective.

FINALLY, LABOR RECEIVED sympathetic attention from the Wilson administration. The Clayton Act specified that "the labor of a human being is not a commodity or article of commerce" and that "nothing contained in the antitrust laws shall be construed to forbid the existence and operation of labor . . . organizations. . . ." Unions were not to be construed as "illegal combinations in restraint of trade" and the injunction was not to be used in labor disputes unless the court decided that it was necessary to prevent irreparable injury to property.

3. Reserves tended to flow to New York, and concentration of reserves in New York encouraged the overexpansion of call loans (loans subject to repayment on short notice, e.g., twenty-four hours) to the securities market. Consult standard texts in American economic history for further details on the national banking system.

Strikes, peaceful picketing, and boycotts were to be legal under federal jurisdiction. This "Magna Carta" of labor, however, was greatly weakened by interpretations the courts gave to the act. In evaluating Wilson's reforms the class should consider their effectiveness as well as their "rightness."[4]

DISCUSSION QUESTIONS

Economic concepts, ideas, etc., that might be brought up in answering the questions are printed in **heavy type** (boldface).

1. What were the major issues in the election of 1912? Why was each important?
   Business concentration; money and banking; tariffs; labor reforms; equality of opportunity; free enterprise; economic individualism.
   (a) What were the outcomes of this election? What did they imply for the economy?
   (b) What did Wilson mean by the "New Freedom"?

2. "The Sherman Antitrust Act of 1890, designed to curb industrial monopolies, was at first used against labor unions with drastic results for the unions." Show how this applies to: (a) the Pullman strike; (b) the Danbury hatters' case.
   Injunctions; primary and secondary boycotts; government and labor.

3. A new judicial concept – the "rule of reason" – evolved in the Standard Oil and American Tobacco Company cases. What was the "rule of reason"? How was it similar to Theodore Roosevelt's classification of helpful and injurious business combinations?

4. What was the purpose of the Clayton Antitrust Act? Of the Federal Trade Commission?
   (a) How did the Clayton Act and the FTC represent attempts to strengthen the Sherman Act?
   (b) Why is the FTC often called an "umpire" for business? What are its powers? How effective has it been?

5. Discuss changes made in the tariff by the Wilson administration. How do the two major parties stand today on the tariff?
   Free trade vs. protectionism; arguments for and against tariffs; comparative advantage.

6. Why was the Federal Reserve System established in 1913?
   Money and banking; central banks; monetary policy; business cycle.
   (a) Who owns the Federal Reserve banks? Explain the structure of the system.
   (b) What privileges does a commercial bank enjoy as a member of the system? What are its obligations?

7. What distinguishes a central bank from regular commercial banks? In what way was the Second Bank of the United States (1816–36) similar to a central bank?

8. How does the Federal Reserve System serve the economy?
   Monetary policy; centralized reserves; elastic system of money and credit; clearing house function; role in foreign exchange; Federal Reserve notes.
   (a) What is meant by the "discount rate"? What is it supposed to accomplish?
   (b) What are "reserve requirements"? How do they work? Why are they used?
   (c) What is meant by "open market operations"? How do they function? Why are they used?
   Business cycle; money supply; inflation and deflation.

9. Today we "gripe" about the income tax, but many average citizens were fighting for its adoption around the turn of the century. Why?
   Theories of fairness in taxation; progressive, proportional, regressive taxes.
   (a) What taxes do you and your family pay? Are they fair? Explain your answer.
   (b) What do you get in return from your local, state and federal governments?
   Government services (schools, roads, police protection, fire protection, national defense, etc.).

10. Taxes can be classified in several ways.
    (a) Distinguish between an income tax, an excise tax, and a property tax.
    (b) Distinguish between direct and indirect taxes.
    (c) What is meant by the "incidence" of a tax? What is meant by "shifting the incidence"?
    (d) Describe a regressive, a proportional, and a progressive tax. Give examples of each.
    (e) What type of tax do you prefer as the basic source of government revenue? Explain your choice.

4. Students with an interest in law might wish to examine some of the court cases relating to the Clayton Act. See Charles O. Gregory and Harold A. Katz, *Labor and the Law*, 3rd ed. (New York: Norton, 1979).

11. In 1914 the Clayton Antitrust Act was hailed by Samuel Gompers as "labor's Magna Carta."
    (a) What were the major labor provisions of the act?
    (b) What did Gompers mean? Was he correct in calling the act labor's Magna Carta?

12. During the Progressive Era the meaning of the term "democratic way of life" came to embrace more than political democracy. Give examples to illustrate this statement.

13. Compare Woodrow Wilson's "New Freedom" with Theodore Roosevelt's "Square Deal" and show both similarities and differences.

14. A common form of business combination in recent years has been the conglomerate[5] merger.
    (a) How does the conglomerate merger differ from the typical merger during Wilson's time?
    (b) Why do business combinations continue today despite antitrust and regulatory laws?

15. What do economists mean by "economies of scale"? Discuss some "diseconomies of scale" that occur when a firm exceeds its optimum size.

16. Why must elasticity of demand for a firm's products be considered in determining whether that firm is a harmful monopoly or not?

17. Match the major economic legislation passed during the Wilson administration with the problems each law was intended to resolve. Were the laws successful? Explain your answer.

18. Did the disadvantages of monopoly outweigh the possible advantages of large-scale consolidation of business? Justify your answer.
"Good" versus "bad" trusts.

ACTIVITIES

1. **Headlines:** To review Wilson's policies toward unions, ask students to interpret the following headlines:
   Wilson Appoints First Secretary of Labor
   Gompers Hails Clayton Act as Labor's Magna Carta
   Railroad Brotherhoods Endorse Adamson Act

2. **Diagram:** Ask the students to illustrate the organization and functions of the Federal Reserve System by constructing an appropriate diagram.

3. **Table:** Have the students construct a table showing the defects of the national banking system established in 1863–64 and how the Federal Reserve System attempted to remedy each of the weaknesses.

4. **Role-playing:** Ask a boy and a girl student to stage a mock interview of a young woman suffragist in 1912 by a congressman with "male chauvinist" leanings.

5. **Cartoon:** Ask a student to draw a cartoon like one that might have been drawn in 1912 to advocate the passage of the Nineteenth Amendment.

6. **Debate:** Resolved: That all commercial banks in the United States be required to become members of the Federal Reserve System.

7. **Investigation:** Have the students investigate the local tax system. What are the chief sources of revenue? The chief expenditures? Are the citizens satisfied with taxes as they are? If not, what substitute taxes or means of securing revenue do the citizens propose? Would they accept a value-added tax in lieu of the property tax?

8. **Debate:** Resolved: The present federal inheritance tax law is inequitable.

9. **Drawing:** Make a drawing about the women's rights movement before World War I that portrays your version of "the new American woman."

10. **Diagram:** A student might prepare a diagram illustrating how checks are cleared.

11. **Role-playing:** Let a group of twelve students simulate a meeting of the Open Market Committee of the Federal Reserve System to discuss present business conditions and make recommendations for what, if any, changes should be made in current monetary policy.

12. **Research project:** Ask a student to investigate the Bank of England or a European central bank. In the report, the operation of the European central bank might be compared with that of the Federal Reserve System, indicating features they have in common and features in which they differ.

13. **Map:** On an outline map, a student might use a colored marking pen to trace the boundaries of the twelve Federal Reserve districts and print, at their proper locations, the names of the cities where the twelve Federal Reserve Banks are headquartered.

14. **Publications:** Write to the various Federal Reserve Banks for publications to add to the classroom library. The following booklets are useful for understanding Topic 13:
    (a) *Historical Beginnings of the Federal Reserve* (Federal

5. A conglomerate is a firm engaged in a number of unrelated businesses.

Reserve Bank of Boston, Bank and Public Services Department, Boston, MA 02106, 64 pp., 1977. Single copies only). Traces the history of the banking system in the United States from 1790 on, discusses the banking problems of the nineteenth century, and describes the legislation that led to the formation of the Federal Reserve System.

(b) *The Story of Inflation* (Federal Reserve Bank of New York, Public Information Department, 33 Liberty Street, New York, NY 10045, 24 pp., 1981.) Explains the causes of inflation and discusses its impact on consumers, business, and government. Also examines fiscal and monetary policies, wage and price controls, and supply-side adjustments.

(c) *The Story of Banks* (Federal Reserve Bank of New York, Public Information Department, 33 Liberty Street, New York, NY 10045, 24 pp., 1982). Uses cartoons to trace the development of banking from Babylonian times to the present with emphasis on the American experience and the role banks play in modern society.

15. **Game:** *Banking.* Through simulation and role playing, participants observe, analyze, and solve problems that arise in the operation of a commercial bank. (Playing time: 2–5 hours; teams of six; Didactic Systems, Inc.)

16. **Simulation game:** *You're the Banker.* Allows players to assume roles as commercial bankers, who grant or refuse loans to customers. The players learn economic principles related to money and banking, monetary policy, and the role of the Fed's "discounting window." (Grade level: 7–12; playing time: 2–4 hours; no. of players: up to 30; cost: $25; Federal Reserve Bank of Minneapolis, Public Information Department, 250 Marquette Avenue, Minneapolis, MN 55480)

17. **Film:** *The Fed . . . Our Central Bank* (1978). Examines the service functions of the Federal Reserve system and explains how monetary policy is formulated. Teacher's guide includes material on inflation. (16 mm., 19 min., teacher's guide, free loan; available from any Federal Reserve Bank)

18. **Film:** *An American Account: The Story of Banking* (1975). Reviews the history of American banking from the financing of the American Revolution to the present. (16 mm., 30 min., free loan; available from Federal Reserve Banks of Boston, Richmond, and Chicago)

19. **Filmstrip:** *Woodrow Wilson: A Portrait of Power* (1981). Explores Wilson's character traits both as a war president and as a reformer at home. (Color, cassette, teacher's guide; Social Studies School Service)

20. **Filmstrip:** *Wilson: Idealism and American Democracy.* Presents Wilson's ideas about democracy and his fight for the League of Nations. (Set of two; Guidance Associates)

21. **Sociodrama:** To review the issues in the election of 1912, stage an informal political rally taking place on the eve of the election. Choose able students to campaign for William Howard Taft, Theodore Roosevelt, and Woodrow Wilson. After formal presentation of the arguments, invite rebuttals and questions from the class.

22. **Individual report:** Note the U.S. consumer protection agencies you find mentioned in newspapers in any given week. Make a brief report about the functions of each. Examples: Federal Trade Commission, Food and Drug Administration, Environmental Protection Agency.

23. **Filmstrip:** *The Progressive Era, Social Reform Movements* analyzes reform efforts between 1890 and World War I. (Color, sound; Educational Audio Visual Inc.)

24. **Problem for analysis:** Theodore Roosevelt, William Howard Taft, and Woodrow Wilson were all presidents during the Progressive Era. Of the three, who did the most "to remedy the accumulated evils and negligences of a period of industrial growth"?[6]
    (a) How was the public made aware of the need for reform during the Progressive Era?
    (b) Which social and economic groups in the United States furnished "progressive" leadership?
    (c) Which groups were notable for not providing progressive leadership?
    (d) Describe the measures you consider to have effected the greatest economic reforms of the Progressive Era.

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6. Quoted from Richard Hofstadter, *Introduction to The Progressive Movement, 1900–1915* (1963).

Topic 14

World War I

Economic Facts, Concepts, Principles, or Problems

- U.S. as world supplier
- Debtor-creditor positions of nations
- National debt
- Wartime controls
- Public vs. private sector
- Production possibilities curve

ALTHOUGH NATIONALISM WAS a major factor in bringing on World War I, there were economic causes as well. As nations developed industries they began to compete for raw materials in such places as Africa. There were disputes over who should have the right to certain areas on that continent, and these disputes helped set the stage for war. Wilson asked Americans to be "impartial in thought as well as action," but the United States' economy was affected from the start. Prior to World War I the United States had been a **debtor nation.** (In 1914 the United States was a net debtor in the amount of $2.2 billion.) Under normal circumstances the United States would have needed many more years to become a **creditor nation.** But the major industrial nations of Europe were at war; their factories were producing military hardware, and required vast new supplies of raw materials. American products were badly needed, and between 1914 and 1916 the value of our exports more than doubled while the value of goods that we imported from Europe declined. By 1919, the United States was no longer a debtor nation but was a net creditor in the amount of $6.4 billion.

Both sides courted the United States, but Germany's submarine warfare and espionage activity swayed public opinion toward the Allies. By 1915 the United States had become the major supplier of ammunition and other war material to the Allies, and by 1917 the Allied governments had sold over $1.5 billion worth of bonds in America. Some cite this as evidence that the United States had a financial stake in an Allied victory. The United States declared war on Germany on April 6, 1917, and there is little doubt that President Wilson and most Americans regarded this as an act of righteousness rather than one motivated by pecuniary interests.

In any event, the country had had little experience in shifting from a peacetime to a wartime economy. During a war, the **public sector** of the economy (that is, government activity) suddenly takes on great importance. The market system can no longer be relied upon to direct resources where they are most needed. Factors of production (raw materials, labor, and capital goods) must shift from the **private sector,** where they had been used to produce goods and services for private consumers and businesses, to the **public sector.** This is the case, at least, if the economy is producing at – or near – full capacity. If our farms, factories, mines, mills, and workers are already fully and efficiently employed, then we can increase production of war goods (such as warplanes, tanks, army barracks, guns, bombs, and submarines) only by reducing our output of customary goods. Indeed, the **real cost** of the war goods will be the civilian goods (such as civilian clothing and automobiles) that we forgo when we make the shift.

The economy is in any case bound to be affected by a major shift from peacetime to wartime production. Some sectors will not have to change much, for example, farmers producing food for soldiers need not alter their production methods. Those farmers, however, will face a greater demand and higher prices. Thus they will try to increase output in various ways and may find it profitable to cultivate land that had previously been considered too poor to yield a profit. Auto manufacturers will face a drastic change. They will have to retool in order to shift from producing civilian cars to producing army tanks and other military equipment. Such shifts trigger other problems. For example, as war production goes into high gear, workers will be receiving their customary or higher wages, but because of the production shifts find fewer consumer goods on which to spend their incomes. Thus, prices will rise because the demand for consumer goods will be as great or greater than ever, but the supply will be less.

What will government do in the foregoing circumstances? It could increase taxes, which would reduce some of the consumer demand (because people would have less money to spend on consumer goods)

and which would at the same time provide funds to finance the war. The government may also, as in World War II, impose wage, price, and production controls. In that war it also put on a strong campaign to sell government bonds to citizens in order to move purchasing power from the civilian to the government sector and to provide civilians with a backlog of assets to use during the transition to a peacetime economy that would ensue when the war ended.

If some resources had been lying idle before the time of war, it is theoretically possible for the nation to increase total output without producing fewer consumer goods. That is, industry might continue to turn out the same amount of consumer items while formerly unemployed workers, idle factories, and unused raw materials were put to work producing guns, warships, and the like. (In technical terms, the nation moves from a point inside its **production possibility curve** to a point on the curve.[1])

Efforts can also be made to find new productive resources. During World War II, women who had not been part of the labor force entered factories and did many jobs that had normally been considered "men's work." Government may also promote research to find new production techniques, develop synthetic materials, and promote the quest for additional sources of supply of materials already in use.

The various wars in which the United States has been involved have had different effects upon the economy and required different degrees of economic mobilization. About six months before our entry into World War I, the government began to plan for the possibility of involvement. A Council of National Defense was set up to plan the manufacture of guns and ammunition, organize transportation facilities, and provide sufficient labor and raw material. The Emergency Fleet Corporation of 1917 was provided with $50 million to construct new merchant vessels. The government built new shipyards and improved old ones, took over the operation of the railroads in December of 1917, and assumed control over the telephone and telegraph systems in 1918.

Labor-management relations could no longer be left to themselves, and the War Labor Board was created to help prevent strikes. The board provided **mediation** by investigating disputes and suggesting terms of settlement. It handled 1500 disputes during World War I. Although nearly everyone agrees that in a wartime emergency people must give up some of their economic freedoms and accept government controls, there is always disagreement on the extent to which such changes are necessary and the means by which the controls should be enforced. This problem should spark some lively classroom debates.

Paying for World War I was another problem. The rates of income tax were raised, and an **excess profits tax** was imposed. (About one-third of the cost of the war was covered by taxes.) Excise taxes were placed on luxury items; imposition of those taxes not only helped raise money but discouraged the buying and thus the production of luxuries. Students should realize that taxes can be used to control consumption and redirect production.

The remaining two-thirds of the cost of World War I was financed by government borrowing. Before the war the U.S. **national debt** had been only $1 billion, but by the middle of 1919 it had soared to more than $26 billion. Raising taxes is one way of obtaining funds to pay for a war; borrowing from the public by issuing bonds is another. (Be sure that students do not confuse the term **national debt** with the nation's debtor-creditor position in international financial markets. The fact that the national debt in 1919 was $26 billion did not mean that the United States owed this amount to foreigners. For the most part, U.S. government securities are purchased by Americans. Thus, the government borrows mostly from its own people—the U.S. national debt is largely an internal debt owed by the U.S. government to Americans.)

There was a serious **inflation** during the World War I era; consumer prices about doubled from 1914 to 1920. During wartime, producers of military goods must attract factors of production away from private enterprise. Thus, as labor comes into short supply (partly because the size of the armed forces increases, partly because the demand for labor rises) wages—the price of labor—will go up unless they are controlled by government. And in practice, it has never been possible to completely prevent wages from rising in the United States during wartime. The higher wages are naturally reflected in higher prices. Similar cost pressures build up under the prices of food, raw materials, and capital goods. Thus wars tend inevitably to be accompanied by inflation. The price escalation that accompanied the Vietnam War might be compared with the inflations of the two previous world wars. Could we have applied any lessons from previous wars in 1965? In what ways were conditions similar? How did they differ? Many economists charge that President Johnson ought to have increased taxes when he decided to step up the Vietnam War. Did subsequent events prove this criticism to be correct?

1. Production possibility curves (sometimes called transformation curves or production possibility frontiers) are described in nearly all introductory economics textbooks. A simple production possibilities diagram, with military goods and services on one axis and nonmilitary on the other, should be comprehensible to average or above-average students.

Finally, the economic policies adopted immediately after World War I should be examined and evaluated. The United States raised its **tariffs,** making it difficult for other nations to sell their goods here, and yet this was perhaps the only way the Allies could have repaid their debts to the United States. Germany certainly lacked the money and resources to repay the huge reparations debt, $33 billion, originally imposed on that country by the victors in World War I. When, after that same war, the old Austro-Hungarian empire was split into several nations, a territory that had been economically united became divided. As a result, the war debt of Austria-Hungary became extremely difficult to pay. Goods could no longer flow freely, prices rose, factories that had been selling over a wide area were restricted to smaller markets, and nations began imposing higher tariffs. It is generally agreed that these actions helped to deepen the ensuing Great Depression of the 1930s and helped create some of the antagonisms that led to World War II.

DISCUSSION QUESTIONS

Economic concepts, ideas, etc., that might be brought up in answering the questions are printed in **heavy type** (boldface).

1. How did World War I affect American export trade?
   (a) How did the Allied powers finance their purchases of foodstuffs and munitions before 1917? After 1917?
   International exchange; balance of trade and payments.
   (b) To what extent did economic forces influence U.S. entry into World War I?
   War loans; international banking and credit; economic interests.

2. How did World War I affect the American economy: (a) before U.S. entry; (b) during the period of American participation; (c) immediately after the war?
   Economic mobilization; inflation; government and the economy in wartime.

3. Before the first world war (1914-18) the United States was both an underdeveloped and a debtor nation. Explain this statement. How did the war transform the United States from a debtor to a creditor nation?
   Trade; foreign investment; balance of trade and payments.

4. Explain how the U.S. government used taxes and the sale of bonds to raise the billions of dollars needed for the war effort.

5. What is the national debt?
   Public borrowing; government bonds; public finance.
   (a) Why is the public debt of the United States considered an "internal" debt?
   (b) How did World War I affect the size of our national debt?

6. How did World War I affect each of the following: (a) workers; (b) consumers; (c) industrialists; (d) farmers?
   Supply and demand; inflation; profits; economic mobilization; reconversion.

7. Differentiate between the public sector and the private sector in the American economy.
   (a) Why did World War I lead to an expansion of the public sector at the expense of the private sector?
   Mixed economy; government's role; economic mobilization; allocation of resources.
   (b) Why was a War Industries Board necessary during World War I?
   (c) Why did the federal government operate the nation's railroad system during the war?
   (d) Why did we need a shipping board?

8. What is meant by "all-out economic mobilization" in wartime?
   (a) Why was this necessary during World War I and World War II?
   (b) Was it necessary during the Vietnam War? Explain your answer.

9. Some writers said that "war socialism" existed in the United States between 1917 and 1919. Do you agree or disagree? Justify your answer.
   Economic mobilization; government operation of railroads; allocation of resources; control of production and distribution by boards and commissions.
   (a) Why was it necessary to create government agencies to direct mobilization? How successful were they?
   (b) What were the advantages and disadvantages of government regulation, standardization of products, and uniform methods of industrial organization during the war?
   (c) Was it necessary for the federal government to take control over individual and industrial affairs to the extent that the U.S. government did in World War I? Explain your answer.

10. Why did the federal government intervene in labor-management relations during World War I? What form did the intervention take? Do you think that governments should intervene in labor-management disputes at any time? Explain your point of view.
Mediation, conciliation, arbitration; labor's role in the economy; wages and prices.

11. To win the war, the Wilson administration required sacrifices from all.
    (a) How did the federal government urge consumers to conserve scarce resources and foodstuffs for the war effort?
    (b) How did it discourage the buying of luxuries?
    (c) How did it regulate profits?
    War excise taxes; rationing; surplus profits taxes; income and corporate profits taxes.

12. Two-thirds of the cost of World War I was raised by borrowing; one-third by taxation.
    (a) How was the two-thirds actually brought into the U.S. Treasury?
    (b) What effect did borrowing have on the national debt?
    (c) How was the additional revenue actually raised by taxation?
    Taxation; national debt; government bonds and savings stamps; wartime finance.

13. Why did serious inflation occur in the United States during World War I?
    (a) If you had been President, what would you have done to keep down consumer prices?
    (b) Did we learn lessons about inflation in 1918-20 that we were able to use in subsequent wars? Explain your answer.
    Supply and demand; cause of inflation; government controls (price controls, wage controls, rationing, rent controls).

14. What was the immediate effect of World War I on the American farmer? What was the long-range effect?
Supply and demand; farm prices; farm costs and output; farm surpluses; farm debt.

15. How did World War I affect the economic condition of the blacks in the United States?
Migration to northern cities; formation of ghettoes; job opportunities; contributions to the war effort; job competition with whites.

16. Explain how each of the following helped to aggravate the Great Depression of the 1930s and to create the tensions that led to World War II.
    (a) The American policy of high protective tariffs.
    (b) The huge reparations bill imposed on Germany and the problem of war debts.
    (c) The break-up of economic units like the Austro-Hungarian Empire.

17. Summarize (a) the worldwide economic effects of World War I, and (b) the economic effects of the war on the U.S. economy.
Human and material costs of war; disruption of trade; taxation; foreign debts; new political-economic systems; debtor and creditor nations; postwar depressions; war as stimulus to industries; national debt; taxation; postwar farm slumps.

18. Why do some people say that the United States "came of age" as a nation as a result of World War I? Do you agree or disagree? Why?
Economic development; U.S. as world economic power; creditor nations.

19. What demands did the needs of the Allies place on the United States?
Manpower; food; munitions; shipping arms and ammunition.
    (a) How successful was the American response to each need?
    (b) What were the major contributions of the United States to the winning of the war?

20. President Wilson asked the American people to be neutral in thought and action.
    (a) What would have been a truly neutral policy of the United States during the period 1914-17?
    (b) How did America's foreign policy toward Europe change after its entry into the war in 1917?

21. During World War I, the public sector of the economy suddenly took on greater importance. Raw materials, labor, and capital goods were shifted from the private sector to produce ships, guns, and munitions.
    (a) Differentiate between the private and the public sector.
    (b) What sacrifices did this shift in resources require on the part of the consumer?
    Shortages; price and wage controls; conservation of resources.
    (c) How will the shift of resources from the private to the public sector affect prices if the economy is operating at capacity?
    Shortages; inflation; priorities.
    (d) What measures can the federal government take to lighten the burden on consumers?
    Allocation of resources; wage and price controls; priorities; rationing.

ACTIVITIES

1. **Table:** Construct a table comparing the methods used to raise money during the Civil War and World War I.

2. **Role-playing:** Ask a student to stage an impromptu Liberty Bond rally in class. Follow the rally by a discussion of the methods by which U.S. government bonds were sold during the Civil War, World War II, and today.

3. **Graph:** Have the students construct a bar graph showing the size of the national debt in 1900, 1910, and 1920.

4. **Panel discussion:** Ask the students to conduct a discussion on the importance of the "home front" in World War I. Have members of the panel represent a housewife, a shipyard worker, a farmer, a Red Cross worker, a Salvation Army worker. A general discussion on the importance of home front morale can follow.

5. **Union meeting:** Have the class hold a union meeting in which evidences of profiteering and the need for equal sharing of the burdens during wartime are discussed. A series of resolutions on specific measures to deal with profiteering could be used to summarize the discussion.

6. **Oral reports:** Have the students prepare individual reports for presentation to the class on the following topics:

   World War I taxes
   Herbert Hoover and the Food Administration
   Gasless Sundays and heatless days—the Fuel Administration
   The Allied war debts
   The work of the Shipping Board

7. **Cartoons:** Ask the students to draw cartoons or posters on various economic aspects of World War I. Suggestions:

   U.S. economic contributions to the Allies
   The American farmer and the war
   Consumer sacrifices for the war effort
   Sale of Liberty and Victory bonds
   Food will win the war

8. **Headlines:** Ask the students to write three headlines dealing with how the United States aided the Allied cause economically.

9. **Research project:** Have an interested student investigate the allegation that the United States entered World War I largely to protect the private loans that bankers had made to the Allied powers during the first two years of the war, and have that student write a short defense or refutation of this theory.

10. **Panel discussion:** Set up a panel discussion on the economic effects of World War I on the victors. Have the various members deal with specific problems such as war casualties, destruction of property, war debts, inflation, dislocation of international trade, rise of dictatorships, rise of "isms," and the new role of the United States as creditor nation.

11. **Sound filmstrip:** Show *The Road to War: 1917* and *The War and the Treaty: 1917–1919* in the series "The United States as World Leader." (Multi-Media Productions)

12. **Film:** Show *World War I: The War Years* to review the events leading to America's entry into World War I. (13 min.; Coronet)

13. **Filmstrip:** Show Part II of *Woodrow Wilson* to teach about America's role in World War I. (Pictorial)

14. **Meet the press:** Simulate a press conference with President Wilson after the creation of the War Industries Board, in which his views regarding the need for government regulation and control of industry during wartime are solicited. Cast a good student in the role of President Wilson and assign the roles of reporters to several other students. Follow this sociodrama with class discussion.

15. **Forums and panels:** Ask a panel of students to discuss one of the following questions:

   To what extent should individuals be required to give up economic freedoms and accept government controls during wartime emergencies?
   Why did the peace movement of the early twentieth century fail to prevent the outbreak of World War I?
   Would an Allied victory have been possible without American intervention?

16. **Publication:** Read *A Primer on Inflation.* It discusses the nature of inflation and its root causes, shows its effects on the economy, and suggests alternatives for dealing with it. (Federal Reserve Bank of New York, Public Information Department, 33 Liberty Street, New York, NY 10045, 12 pp., 1983; free).

17. **Chart:** "Guns versus Butter." Ask a bright student to demonstrate a production possibilities curve (sometimes called a transformation curve or a production possibilities frontier) to your class. Average students can understand an uncomplicated production possibilities curve, with military goods and services on one axis and nonmilitary output on the other. The graph is useful in teaching and/or reviewing economic concepts such as factors of production, increasing costs, opportunity costs, diminishing returns, and productivity. Nearly all introductory economics textbooks show simple production possibilities curves.

18. **Film:** *Great War* describes the outbreak and progress of World War I, the role of the United States in it, and the impact of the war on the American people. (Black and white, 52 min.; McGraw-Hill)

19. **Film:** *World War I: A Documentary on the Role of the U.S.A.* discusses the entry of the United States into World War I, the U.S. part in the Allied victory, and Wilson's role in the peace conference. (Black and white, 28 min.; Encyclopedia Britannica)

20. **Simulation:** *Peace: A Simulation of War-Peace Issues During the Wilsonian Era.* August 1914. War has erupted in Europe. Students enact the roles of anglophiles, francophiles, germanophiles, idealists, and realists. The players must research specific recommendations for President Wilson's consideration, including logical arguments against each position. For the post-Armistice part of the simulation, students take roles as Wilsonians, irreconcilables, loyalists, strong reservationists, and mild reservationists. Students research their positions and then enact a senatorial debate on whether the United States should reject or accept the Versailles Treaty. (No. of players: 25–35, time: 3 weeks; Interact)

21. **Problem for analysis:** Some historians argue that World War I destroyed the Progressive movement with an overdose of patriotism and repression, and paved the way for the ascendance of reactionary views during the 1920s. Other historians claim that World War I actually helped to fulfill many progressive aspirations. Did domestic policies during World War I fulfill or kill the demands of the progressives?
    (a) What gains did labor, women, and the temperance movement make during and immediately following the war?
    (b) What losses did the Progressive movement suffer during and immediately after the war?
    (c) Was a stronger federal government a goal of the Progressive movement? Explain your answer.

Topic 15

The 1920s and the Depression of the 1930s

Economic Facts, Concepts, Principles, or Problems

- The business cycle
- New industries—autos, movies, radio
- Sick industries of the 1920s
- Keynesian theory
- Monetarism

THE 1920s HAVE been characterized as "roaring," "golden," and "expansive." Were they? While World War I was in progress, the government gave little thought to postwar planning. (When asked to address the Resconstruction Congress of American Industries in 1918, Wilson replied: "You may be sure that I would send a message . . . if I knew what message to send, but frankly I do not.") People simply wanted to return to "normalcy" as soon as possible. Only two days after the Armistice the War Industries Board started to remove **price controls**, and within a month about half the uncompleted war contracts were canceled. Nevertheless, prosperity generally continued. Some unemployment resulted from the military demobilization and the **reconversion of industry** to peacetime production, but the U.S. Treasury was spending more than it received (a factor that tends to stimulate the economy) in 1919, and building construction and auto manufacturing—industries whose output the war constricted—were now ready to "take off." A short but sharp **recession** ensued in 1921, as government spending decreased (in fact, by the fourth quarter of 1919 an excess of receipts over expenditures had appeared), as consumers began to balk at the high retail prices, as construction declined (because of the lack of mortgage credit and high building costs), and as the Federal Reserve began to tighten credit.

Recovery was rapid, however. There was still a great need for housing and commercial buildings, and the rapidly growing auto industry engendered growth in road building, gasoline refining, tire output and in other related industries.[1] The chemical industry expanded in a spectacular fashion, and there was a boom in electrical equipment and radio. The **industrial production index** nearly doubled between 1921 and 1929. Nevertheless, the **prosperity** of the 1920s was uneven. The boom in American agriculture ended when European farm output revived. Farm land prices had soared and farmers had gone heavily into debt. Thus, when prices of farm goods collapsed (the index of farm prices, based on 1910–1914 = 100), the farm bankruptcy rate soared and farm foreclosures were high throughout the middle 1920s. Cotton manufacturing, coal mining, the shoe and leather business, and shipbuilding were also in distress. In some areas there was high unemployment even in good years. Whether or not the decade of the 1920s was an illusory golden age, its history is worth studying. If underlying conditions leading to the Great Depression of the 1930s were present in the 1920s, ought we to be on the alert for similar conditions during periods of prosperity in our own times?

Students should realize that a **recession** or **depression** is not simply someone else's problem. Those who still have jobs or whose businesses are still operating should not be complacent about a business downturn. First, one ought not to be indifferent toward the suffering of those who are directly affected. Second, the depression may spread and eventually hit those previously little affected.[2] Third, society as a whole is hurt because the country is not then producing as many goods and services as it can, and thus, the pie we all share becomes smaller. When a gap exists between what we are producing and what we could be producing, the nation is failing to live up to its potential. When we fail to live up to our production potential, we are less able to cope with such concerns as chronic poverty, slums, and pollution.

1. Millions of jobs were directly or indirectly created by the automobile, and many economic historians assert that the new industries and wealth generated by the automobile stimulated the entire economy.

2. QUESTION: What is the difference between a recession and a depression?
ANSWER: When my neighbor is out of work, that's a recession. When *I'm* out of work it's a depression!

The factors that can cause business to expand or contract should be examined in detail. The weather was once considered to be an important determinant, and this is still a factor in agricultural nations and even in the farm areas of industrial nations. It is probably a very minor element in the American **business cycle** of recent times, however. Discoveries can have a large impact on the economy, as illustrated by the finding of gold in 1848; so can industries based on the development of important innovations such as the steam locomotive, the steamship, and the automobile. (A practical student project would be to examine the new industries of today, attempt to ascertain their potential importance to the economy, and determine whether or not they will present major sources of good jobs or career opportunities.)

Some feel that **underconsumption** can be an important cause of declines in business activity (as has been claimed in the case of the Great Depression). The underconsumptionists' argument is that purchasing power is too thinly spread and therefore a significant portion of the population cannot buy a commensurately large enough share of the goods and services being produced. This condition leads to a fall in economic output.

An almost opposite argument blames **overproduction.** Industry is said to overestimate the demand for its products, invest too much in new plants and equipment, and produce more than it can sell. Factories are therefore forced to lay off workers, cancel orders for raw materials, and so on.

Bank credit is also seen as playing an important role in business downturns. Businesses borrow from banks to expand their operations, and money is thereby pumped into the economy. (Remember that bank credit makes up a major portion of the total U.S. money supply.) Eventually, however, the expansion of bank credit stops, for there is a limit to the amount that banks can lend. Thus, there is a shortage of funds for business use, interest rates rise, some new business projects that have been started must be abandoned, spending of all types tends to fall, and workers begin to lose their jobs. Unwise monetary policy by the Federal Reserve also has been blamed for economic slowdowns on the grounds that too sluggish a growth in the money supply will have effects that bring on a business decline.[3]

In studying possible causes of the business cycle, students might relate the subject to their own interests by giving thought to the occupations they might enter or businesses they may intend to start in the future. Are they planning careers in fields relatively untouched by business ups and downs, or are they thinking of fields that may enjoy great prosperity during boom periods but can be hit during a recession? (For example, a student thinking of a career in the construction industry might want to examine the "building cycle.")

The various phases (trough, expansion, peak, recession, trough) of a "typical" business cycle can be examined, paying particular attention to the possible causes behind each phase. (For instance, is overconfidence on the part of business managers during the prosperity phase a factor in causing them to produce more than they can sell and, if so, does this lead to the laying off of workers that may push the economy into a recession?) The effects on different sectors of the economy, workers in different industries, and the public in general should be analyzed.

Bright students can examine some of the more sophisticated theories and principles related to economic activity. The followers of John Maynard Keynes (the economist whose ideas – generally called **Keynesianism** – dominated the field from the 1930s on) have tended to stress the stimulation of demand – through actions by the federal government – to prevent or cure a recession or depression. The **monetarism** of Milton Friedman, on the other hand, stresses steady growth of the economy, which it claims would occur by allowing the money supply to increase at a constant rate of between 3 and 5 percent a year and by discouraging government interference with the market. **Supply side economics** advocates policies to stimulate production, especially tax reductions that would encourage business to invest more in productive facilities and individuals to work harder or longer. A more recent theory known as **rational expectations** asserts that people have learned to anticipate actions that the national administration and the Federal Reserve take to counteract recessionary or inflationary conditions. People will therefore behave so as to counteract these moves, thus weakening the government's ability to counteract economic cycles. Of course, all of these theories are more complex than these simple descriptions suggest. Additional details can be found in recent standard textbooks.[4]

The Great Depression of the 1930s is an instructive period for students to study because just about all the things that can go wrong with an economy did go wrong at that time. Among the causes that should be examined are excess industrial capacity, the saturation of

3. We have greatly simplified these theories of business cycle causation. Teachers should consult a standard textbook on the principles of economics or, better still, a basic text on business cycles.

4. Also see David G. Raboy, ed., *Essays in Supply Side Economics* (Washington, D.C.: The Institute for Research on the Economics of Taxation, 1982) and G. Thomas Say and Paul E. Masters, Jr., eds., *Supply-Side Economics Pro and Con* (Carrollton, Ga.: West Georgia College, 1982). For a simple explanation of rational expectations, see *Rational Expectations—Fresh Ideas That Challenge Some Established Views of Policy Making* (Minneapolis: Federal Reserve Bank of Minneapolis, 1977).

the market for new consumer durables, the decline in residential construction after 1926, extremely high indebtedness (in the form of mortgage credit, consumer credit and borrowing for stock purchases), the stock market crash of 1929, a reduction in the money supply, declining prices, high tariffs that acted to reduce U.S. imports and thus damage the rest of the world, and drought in the farm areas. Proposals for controlling the business cycle can be discussed at this point or can be taken up in the next topic.

DISCUSSION QUESTIONS

Economic concepts, ideas, etc., that might be brought up in answering the questions are printed in **heavy type** (boldface).

1. The American people were eager to "return to normalcy" as soon as World War I ended. How did this help create some economic problems?
   Reallocation of resources; economic demobilization; reconversion of industry; cancellation of war contracts; inflationary pressures; pent-up demand; unemployment.

2. A short but sharp recession occurred in the United States in 1921. Why? Why did the economy in general recover very rapidly?
   Business cycle; growth of industries; deferred consumer purchases.

3. Explain how new enterprises, such as auto manufacturing, road construction, new building, radio, and the movies, helped to create new jobs during the "Golden Twenties."
   Interdependence; investment; circular flow of income; specialization; profit motive.

4. Although the years after World War I were called "the prosperous twenties," coal mining, textiles, the railroads, and farming were becoming "sick industries." Discuss the reasons why each was in trouble.
   Depressed areas; innovation; new power sources; foreign competition; shifts in consumer demand; overexpansion; overproduction; farm surpluses.

5. What is a business cycle? Describe the phases of the cycle. What phase of the cycle do we seem to be in at the moment?

6. Give at least four possible explanations for the business cycle. Which seem to describe the causes of the following depressions: 1837, 1873, 1893, 1921?
   Business cycle theories; speculation; overexpansion; money and banking policies.

7. Describe four or more suggested ways of controlling business cycles. Which do you consider most effective? Why?
   Fiscal policy; monetary policy; built-in stabilizers; public works; multiplier and accelerator; government's role.

8. Was the stock market crash of 1929 a cause or a symptom of the Great Depression? Explain your answer.
   Securities market; business cycle; investment.

9. A recession is everyone's problem because it eventually hits each one of us. Is this true or false? Explain your answer.

10. Economists have attributed business cycles to many factors. Explain how each of the following can influence the expansion or contraction of a nation's volume of business: (a) weather conditions; (b) discoveries and inventions; (c) underconsumption; (d) overproduction; (e) popular psychology; (f) monetary and fiscal policies.

11. In choosing your own life's work or profession, why is it essential that you study "cyclical trends" in your line of work?
    Impact of business cycle on various industries; supply and demand.

12. Discuss the basic causes of the Great Depression.
    Overexpansion; overproduction; underconsumption; money, banking, and credit; stock market speculation; land values; decline in foreign trade; economic effects of war.

13. "A little deflation (or recession) at the right time is a good thing." Do you agree? Why, or why not? How can monetary and fiscal policies help cause deflation?

14. Many economists believe that the business cycle can be controlled.
    (a) How do socialists propose to eliminate the ups and downs of business?
    Planned economy; government ownership and control.
    (b) How do the advocates of free enterprise expect to master the business cycle?
    Monetary policy; fiscal policy; built-in stabilizers; operation of the free market.
    (c) How would you like to see the cycle mastered? Explain.

15. What are the core ideas of each of the following approaches to economics?
    (a) The Keynesian approach.
    (b) The monetarist approach.
    (c) The supply side approach.
    (d) The rational expectations approach.

ACTIVITIES

1. **Graph:** Draw a graph indicating changes in the following between 1929 and 1933:

   Unemployment — Gross National Product
   Foreign trade — Bank failures
   Profits

2. **Panel:** Conduct a panel discussion on the causes of the Great Depression. Let the students assume the roles and present the views of each of the following: a farmer, an investor, an economist, a labor leader, a banker, a psychologist. Ask the panel moderator to list the causes of the Great Depression on the chalkboard after the presentation of each panelist's argument.

3. **Table:** Construct a table comparing the causes and results of the Depressions of 1837, 1873, 1893, 1907, and 1929.

4. **Book reports:** Ask the students to write a report on a book about the depression of the 1930s. The following are recommended:

   John Kenneth Galbraith, *The Great Crash: 1929*
   Frederick Lewis Allen, *The Big Change*, Chap. 10
   Dixon Wecter, *Age of the Great Depression*

5. **Time line:** Make a time line of "Ten Years of Republican Rule, 1922–1932." Include the administrations of the presidents, major events, and major legislation.

6. **Oral reports:** Ask the students to do library research and present reports on the following topics:

   Theories of the business cycle
   The post-World War I farm problem
   The AFL from 1881 to 1931
   Harding and the return to "normalcy"
   "Keep Cool with Coolidge"

7. **Debate:** Resolved: That the United States adopt a policy of unrestricted immigration.

   Resolved: That the United States adopt a policy of unrestricted free trade.

8. **Speaker:** If your school is in an agricultural area, invite the county agent, Farm Bureau representative, or officer of the local Grange to present a brief survey of the history of agriculture in the county. Plan for the visit, and present the speaker with guidelines for the occasion.

9. **Newspaper clippings:** While you are dealing with the farm problem, reserve a part of the bulletin board for current newspaper clippings dealing with the subject. A current trend or problem – or an achievement – usually serves as an excellent springboard to the topic.

10. **Filmstrip:** Show selected reels of *The 1920's*, a series of color filmstrips in the American Decades Series that surveys political and economic patterns, science and technology, the struggle for human rights, and cultural developments for the period under study.

11. **Filmstrip:** Show *Folksongs of the Great Depression* to create the mood and to highlight the problems of the era (Two color filmstrips, two LP records, teacher's guide.; Warren Schloat Productions)

12. **Records:** Play the Folkways/Scholastic record "Songs of the Great Depression." Ask the students to identify the economic problems touched on in the songs. Another approach would be to play "Hard Times: The Story of the Depression in the Voices of Those Who Lived It" (Caedmon)

13. **Filmstrip:** Show *The Great Depression* to teach the facts and the flavor of this period in American history (Two color filmstrips, one LP record; Multi-Media Productions)

14. **Game:** Play "Panic," a simulation of the prosperity of the 1920s and the depression of the 1930s and the problems and pressure groups involved. (Grade level 7–12; playing time: 23 hours; no. of players: 25–36; Interact)

15. **Filmstrips:** The following filmstrips explain various aspects of the economics of depression:

    Business Cycles and Fiscal Policy (Young America)
    Prosperity and Depression (SVE)

16. **Film:** Show *'29 Boom and '30 Bust* to teach the causes of the Great Depression and its immediate effects through newsreel clips. Film also develops a rationale for contracyclical policies. (15 min.; McGraw-Hill)

17. **Film:** *The United States in the Twentieth Century: 1920–1933* uses mainly newsreel clips to review the Republican era and the start of the Great Depression. (18½ min.; Coronet)

18. **Filmstrip:** Show *Controlling the Business Cycle* to describe a typical business cycle. Accelerator and multiplier analysis are introduced to explain cumulative movements. There is a discussion of built-in stabilizers and contracyclical fiscal policy. (McGraw-Hill)

19. **Oral history:** Play "Hard Times: the Story of the Depression in the Voices of Those Who Lived It." These are the tapes on which Studs Terkel based his book *Hard Times*. (Two cassettes; Caedmon Social Studies School Service)

20. **Filmstrip:** *The Reckless Years: 1919–1929* describes the political, economic, and social events of the decade. (Two filmstrips, color, two cassettes, guide; Guidance Associates)

21. **Filmstrip:** *The Great Depression: A Chronicle of the Lean Years* (1982). Part I covers 1929–36. It depicts the stock market crash, the Hoover periods, and the New Deal. Part II shows the opposition to the New Deal and America's move toward involvement in World War II. (Two color

filmstrips, two cassettes, spirit master, guide; Educational Enrichment Materials)

22. **Film:** *The Depression Years* (1975) provides documentary footage of the depression years. It shows the human and economic plight of the nation. The film looks at the programs put into effect to combat the depression and ends with a discussion of what could be done to prevent another depression. (Color, 24 min.; Films Incorporated)

23. **Film:** *Dust Bowl* depicts the economic and human havoc created by the great drought of the 1930s in Texas, Kansas, Oklahoma, and New Mexico. (Black and White, 15 min.; McGraw-Hill)

24. **Problem for analysis:** In his *Memoirs*, Herbert Hoover said:

> In the large sense the primary cause of the Great Depression was the war of 1914–1918. Without the war there would have been no depression of such dimensions. . . . We had a normal recession due to domestic causes beginning with the stock market slump in October 1929, but we were on the way out of it when the European difficulties rose to hurricane force and struck us in April 1931. . . .

Governor Franklin D. Roosevelt of New York, on the other hand, blamed the depression on the misguided policies of the Republican administrations during the 1920s rather than primarily on overseas developments. To what extent were the causes of the Great Depression domestic in origin? International in origin?

(a) Did "misguided policies" of Harding, Coolidge, and Hoover help to bring on the depression?
(b) How did World War I and its aftermath contribute to the Great Depression?
(c) Are depressions "simply a perfectly normal functioning of the business cycle?"

Topic 16

The New Deal

Economic Facts, Concepts, Principles, or Problems

- Controlling the business cycle
- Fiscal and monetary policies
- Automatic stabilizers
- Social Security
- SEC
- Wagner Act
- NRA
- Child labor laws
- FDIC
- New Deal and labor
- New Deal and the farmer

In 1933 the comedian Will Rogers remarked that if Franklin Roosevelt burned down the White House the people would cheer him because "at least he got a fire started." Almost any kind of action seemed to be preferable to none, for indeed the situation had become desperate. In 1932 business was producing only half what it had been in 1929. Auto production was only one-fourth of its 1929 level, exports had fallen from $5.2 billion to only $1.6 billion, banks were failing by the thousands (more than 9,000 bank suspensions, that is, bank failures, occurred from 1929 through 1933), and **depression** had become a worldwide phenomenon. Hungry mobs smashed store windows to steal food, the army was called out to disperse unemployed war veterans who had marched to Washington to demand help (in the summer of 1932), and armed farmers were banding together to save their farms from foreclosure.

Hoover had done more to cope with the depression than is generally realized, but in the face of nearly 13 million unemployed workers (about 25 percent of the labor force), thousands of business failures and a stock market collapse, his efforts appeared to be too feeble. School children sometimes fainted from hunger, 20 percent of the pupils in New York City schools were found to be suffering from malnutrition, and one school found that 99 percent of its children were underweight. The notion that problems of this magnitude could be handled by private charities and local governments was untenable—indeed, even state governments were running out of funds, and teachers and other state employees worked without pay for months at a time.

It is not an exaggeration to say that one could teach an entire basic economics course with the New Deal as its focus, for most of the major analytical tools and principles of economics can be brought to bear in a study and analysis of the policies of the Roosevelt administration. Furthermore, the dramatic way in which FDR approached problems (such as the closing of all banks in the nation on the very day of his inauguration) makes the subject extremely interesting.[1]

The opportunities for including economics in a study of the New Deal period are so great that it is not even possible to list all of them in the space available here. Money and banking are very important because of the large number of bank failures—4,000 in 1933 alone, 5,096 in the previous three years—establishment of the Federal Deposit Insurance Corporation, passage of emergency banking legislation, **devaluation** of the dollar, abandonment of the **gold standard**, added powers given to the Federal Reserve, and the way **monetary policy** was employed from 1930 to 1933. (Tantalizing question: "The Federal Reserve had been in existence for two decades. Why didn't the Fed prevent the depression, and why was the Fed unable to end the depression?")

Fiscal policy took on great importance. Most economists agree that government can stimulate a lagging economy by reducing taxes enough and increasing its own spending enough to incur a budget deficit. Those who believe that fiscal policy should be a major weapon in controlling the **business cycle** assert that it is

1. Actually, many banks had already been closed by the actions of state governments in order to prevent withdrawals of deposits that were threatening even very sound banks with collapse as a result of the general panic. For details see Susan E. Kennedy, *The Banking Crisis of 1933* (Lexington: The University Press of Kentucky, 1973).

quite proper for the government to run a **deficit** when a recession or depression exists, and to run a **surplus** (spending less than it receives in taxes) when inflation is the problem. The idea is to pump money into the economy in bad times and to take money out of the spending stream during periods of **full employment** and rising prices. Thus a budget deficit is not seen as being bad per se—it all depends on the conditions under which a deficit occurs.

Running deficits means increased government borrowing and thus a rise in the national debt. People are often concerned about the size of the debt, but economists insist that it be placed in perspective. How large is the national debt per capita (i.e., the total debt of the federal government divided by total population)? How large is it in relation to the Gross National Product? For example, the federal debt in the early 1980s was more than $1 trillion. In 1946 the debt was about $260 billion, a much smaller figure in *absolute* terms. Yet, the 1946 debt was about 129 percent of GNP—that is, the debt was larger than a year's worth of production. By early 1983, however, the GNP was more than $3 trillion. Accordingly, the 1983 debt of more than $1 trillion was relatively much lower than in 1946—about 42 percent of GNP.

When annual deficits occur, they should be related to current conditions. The $110.7 billion deficit of the Reagan administration in 1982 was about 4 percent of that year's GNP—a large figure in peacetime. (The 1983 deficit, as this guide went to press, was estimated at about $200 billion, equivalent to about 6 percent of the GNP.) The $110.7 billion was double the 1943 deficit incurred under Franklin Roosevelt's administration in 1943, but the 1943 deficit was about 29 percent of that year's GNP. The financing of World War II accounted for this swollen percentage.

Some try to compare the public debt with private debt, arguing that it is foolish for a family to "spend beyond its means" and that it is similarly foolish for the national government to do so. They fail to realize, however, that government can do things that a family cannot. It can levy additional taxes, for example, and it can refund (renew) the debt indefinitely simply by issuing new bonds as old ones mature. Furthermore, it must be understood that the debt is largely internal, for most federal securities are held by Americans, not by foreigners. Therefore, taking the nation as a whole, we in effect owe the debt to ourselves. This is not to say that a high public debt should never be of concern, but simply that casual evaluations and snap judgments must be avoided.

The Roosevelt administration justified its deficits by citing the need for government spending in order to bring us out of the depression and, of course, because of the high cost of World War II. In recent years, however, government deficits have become much more controversial. Many fear that government borrowing "crowds out" private borrowers, making it more difficult for individuals and businesses to obtain loans.[2] It is also charged that when government's demand for loanable funds is great, that helps raise interest rates higher than they would be otherwise. High interest rates make it hard for people to buy homes, raise the cost of doing business, and increase the interest government must pay on its debt. (The annual interest on the federal debt for 1983 was expected to be about $135 billion, or in the neighborhood of 15 percent of all budget outlays.) In addition, "excessive" government spending made possible by borrowing is sometimes cited as one of the causes of inflation.

FDR's various actions to bring down unemployment can be assessed, with emphasis on whether similar moves might be taken today to deal with the problem of high unemployment among youths and minority groups. Are direct employment programs such as the building of roads, dams, and post offices, or conservation work on forests, waterways, etc., preferable to indirect measures such as tax reductions, "easy money" policies by the Federal Reserve, and special lending to private enterprises such as the Reconstruction Finance Corporation provided in the Hoover and Roosevelt administrations? It might be interesting to compare certain policies of the New Deal—those policies called "discretionary"[3]—with policies recent administrations have taken during recessions they have confronted. President Reagan's actions in 1981–82 would be especially interesting to examine.

In addition to the monetary and fiscal policy instruments that help control the business cycle, **automatic** (or **"built-in"**) **stabilizers** also affect the cycle. The unemployment insurance system, created during New Deal days, is one such stabilizer. Unlike discretionary policies, built-in stabilizers automatically work to counter cyclical trends. During good times, employers on net balance pay taxes into the unemployment insurance fund. Of course, that is a time when they are best able to pay the taxes. Then, when a recession appears and workers lose their jobs, a flow of money goes out into the spending stream in the form of unemployment insurance payments. This not only aids the

2. In 1983 the federal government's share of all borrowing in the United States was in excess of 40 percent. Ten years earlier, in 1973, this share was only 12 percent.
3. Discretionary policies require a specific decision, for example, whether to increase or decrease government spending or taxation, whether the Federal Reserve should change its current policy in respect to the money supply, etc. Decisions of this kind can be difficult to make because there may be disagreements on the magnitude of the problem, just what action to take, how strong the action should be, when to make the move, and so on.

unemployed workers, but helps to stimulate the economy. Another stabilizer is the progressive income tax, for its rates are so set that when people's incomes rise – which usually happens during good times – those incomes are subject to higher rates, a help to the prevention or control of inflation; this tax mechanism acts in the opposite fashion when incomes tend to fall during bad times (a help to promoting an increase in economic activity).

The New Deal also brought a great change in the federal government's position in respect to organized labor. Previously, government had tended to remain neutral or to favor management in labor disputes, but now unions were given positive encouragement, in particular through the National Labor Relations Act, commonly called the Wagner Act. The Social Security Act and the Fair Labor Standards Act – the latter introduced the **minimum wage** – were also key pieces of legislation. All three acts have undergone substantial revision since, and everyone should understand their present provisions. Many value questions can be discussed about these laws including the soundness of the funding for social security, whether there ought to be any alterations in the minimum wage legislation, whether subsequent amendments to the National Labor Relations Act have been wise, etc.

Other New Deal actions relating to issues of importance today are those involving aid to the farmer, control of the securities markets, consumer protection, reduction of tariffs, public housing and slum clearance, conservation, merchant marine subsidies, and welfare programs.

Did Roosevelt "lead us down the road to socialism," as has been charged, or was he the "savior of the capitalist system," as has also been asserted? Discussion along these lines about the New Deal poses the whole set of perplexities concerning the proper role of government in the economy. Moreover, raising such broad and fundamental issues helps students to become aware that economic analysis does not consist of sterile exercises in logic; it provides a set of tools that helps to answer some of the most important questions that face a society.

DISCUSSION QUESTIONS

Economic concepts, ideas, etc., that might be brought up in answering the questions are printed in **heavy type** (boldface).

1. How did Franklin D. Roosevelt's approach to the problems of the depression differ from President Hoover's?
   (a) Why was Franklin Roosevelt more successful than Herbert Hoover in coping with the problems of the depression?
   (b) Although Hoover opposed federal relief for the unemployed, he did make other efforts to cope with the depression. Why did he fail?
   Old vs. new theories of the business cycle; government's role; countercyclical measures.

2. Fifty years ago youth unemployment was as serious a problem as it is today.
   (a) How did Franklin Roosevelt handle the problem of unemployed youth?
   Civilian Conservation Corps; National Youth Administration.
   (b) Would similar measures help solve the problem of youth unemployment today? Explain.

3. Franklin D. Roosevelt faced grave economic problems on March 4, 1933.
   (a) Discuss at least three major economic problems that faced the new president.
   Unemployment; bank failures; business failures; farm foreclosures.
   (b) Discuss the immediate and ultimate purposes of the National Recovery Act of 1933. To what extent was it a success or failure? Explain your answer.

4. Why did more than 4,000 banks fail in 1933?
   (a) What problems faced the banking system when Franklin D. Roosevelt was inaugurated?
   (b) Why was the Federal Reserve System unable to prevent the failures?
   State banks not required to be members of FRS; Fed had less power then.
   (c) What action did Roosevelt take to deal with the banking crisis?
   Bank holiday; new legislation, including FDIC.
   (d) How did the bank legislation of the New Deal reestablish confidence in the banking system?

5. Historians speak of Roosevelt's three Rs – Relief, Recovery, and Reform. Describe at least one New Deal measure designed to accomplish the purpose implied in each of the three Rs.

6. What is meant by fiscal policy?
   (a) What is its purpose?
   Business cycle; inflation and deflation; deficit financing; accelerator and multiplier.

(b) Explain the role of each of the following in fiscal policy: (1) deficit financing; (2) built-in stabilizers; (3) progressive taxes.

7. Was the New Deal truly revolutionary in its effect? Defend your answer.

8. In the presidential campaign of 1932, Franklin D. Roosevelt pledged more economy in government; "a saving of not less than 25 percent" and "a federal budget annually balanced."

   (a) Why did Franklin Roosevelt abandon these promises after he was in office?
   Relief and recovery measures; fiscal policy.

   (b) When is an unbalanced federal budget considered good countercyclical policy?
   Keynesian policy; demand side economics; multiplier; accelerator.

9. Explain the meaning of the national debt.

   (a) Why are economists more interested in the size of the debt per capita than in its absolute size?

   (b) In the early 1980s, the national debt was over $1 trillion while in 1946 it was $260 billion—yet economists in the early 1980s called the debt *less* of a burden. Explain why.
   Debt as a percentage of GNP; per capita debt; absolute debt.

   (c) Why do economists usually say that the national debt should not be compared with the debt of a family or individual?

10. Discuss the "cushions" created by the New Deal to soften the impact of future depressions. In your opinion, which have been the most effective? Why?
    Built-in stabilizers; monetary and fiscal policies.

11. How did the status of labor unions differ before and after the New Deal?

    (a) Explain how employers resisted unionization before the New Deal.
    Injunctions; open shop; company unions; blacklist; yellow-dog contract.

    (b) How did the National Industrial Recovery Act and the Wagner Act (National Labor Relations Act) help to increase union membership?
    Collective bargaining; bargaining agent; fair labor practices.

    (c) How does the current administration's policy toward unions compare with that of Franklin Roosevelt's New Deal?

12. During various periods of the twentieth century, farmers have been less prosperous than other entrepreneurs.

    (a) Why did farmers face hard times after both World War I and World War II?
    Supply and demand; elasticity of demand; farm costs and output; farm debt; loss of foreign markets after wars; middleman's costs; foreign competition; surpluses.

    (b) Describe at least two policies of the federal government that have been adopted since 1900 for the purpose of raising the level of farm income.
    Parity; price supports; soil bank.

    (c) Why do the problems of farming differ from those of other businesses, such as manufacturing?
    Pure competition vs. administered markets; inelastic demand; difficulties in controlling output (uncertainties in the weather, for example).

13. "The farm problem is basically a problem of price disparities." Explain this.

    (a) Why are industrial prices often relatively higher than farm prices?

    (b) During the Great Depression the prices of farm tools and equipment dropped by only 6 percent, while the prices farmers were receiving for their output dropped by 63 percent. How do you explain this? What effect did it have on farmers?
    Pure competition vs. administered markets; supply and demand; real income.

    (c) What is meant by "parity payments" and how are they used to help farmers?

14. Explain by citing specific examples of his policies why Franklin Roosevelt is said to deserve an honored place in the Environmental Hall of Fame.
    Conservation; Tennessee Valley Authority; Civilian Conservation Corps; Soil Conservation Act; Soil Conservation Service.

15. Explain why Roosevelt was considered to be a pioneer in the consumer movement.
    Food, Drug and Cosmetics Act of 1938; Federal Trade Commission and advertising.

16. The Tennessee Valley Authority was an example of regional planning.

    (a) Why was the TVA different from other depression programs?
    Social experiment; long-range regional planning.

    (b) Describe in some detail the purposes, methods, and accomplishments of the TVA.
    Regional economic development; government's role; aid to depressed areas; rural electrification; navigation and flood control; recreation.

17. If there had been no New Deal, would "natural forces" have brought about a recovery of the U.S. economy before World War II? Give reasons for your opinion.
    Business cycle theories; free market vs. government intervention.

18. Did reform measures like the Securities and Exchange Act hasten or retard recovery? Explain your answer.
Government and business; securities market; business psychology.

19. Explain how the New Deal attempted to aid: (a) bank depositors; (b) buyers of securities; (c) the railroads; (d) the unemployed; (e) consumers; (f) youth.
FDIC; SEC; Motor Carriers Act; unemployment insurance; Food, Drug and Cosmetics Act; Civilian Conservation Corps; National Youth Administration.

20. What are public utilities? How do they differ from other businesses?
Natural monopoly; business costs and output; elasticity of demand.[4]

(a) Why do states regulate the rates and services of public utilities?

(b) What problems do we encounter in regulating public utilities?
Determining cost of output; concept of "reasonable" profit; consumer representation.

(c) Why did the federal government enact legislation to regulate interstate public utility holding companies?
Pyramiding of holding companies; monopoly prices; inelastic demand.

ACTIVITIES

Economic concepts, ideas, etc., that might be brought up in answering the questions are printed in **heavy type** (boldface).

1. **Class discussions:** Class discussions may be held on topics such as the following:
   Did the New Deal preserve capitalism in the United States?
   Should industrial wages be guaranteed?
   Should the government intervene in labor-management disputes?
   Should unions be incorporated and closely regulated by the government?

2. **Debate:** Resolved: That the National Industrial Recovery Act of 1933 was an experiment in state socialism and unwise.

3. **Resource person:** Ask someone whose recollections go back that far to present a personal view of the depression, FDR's recovery efforts, and an estimate of Franklin D. Roosevelt's place in history.

4. **Community survey:** Make a survey of the major unions in your community. How many are organized on a craft basis? On an industrial basis? Are all of them affiliated with the AFL-CIO?

5. **Oral reports:** Ask students to do library research and report on the following topics:
   New Deal Banking Reforms
   Work Relief under the WPA
   The TVA – An Experiment in Regional Planning
   New Deal Farm Legislation
   The Good Neighbor Policy
   The Social Security Act
   The New Deal and the Home Owner
   New Deal Labor Legislation
   John L. Lewis and the CIO

6. **Investigation:** If there is a strike in progress in your community, investigate the issues involved and the attitude of the public, and decide how you would resolve the matter. Report to the class and invite discussion.

7. **Panel discussion:** Organize a panel discussion on the farm problem during the 1930s. Let the discussants represent a city worker, a housewife, a railroad executive, a banker, and a manufacturer. Questions for discussion: Why is each vitally interested in prosperous American farms? Why is the federal government gravely concerned about the farm problem? What can it do?

8. **Agricultural Hall of Fame:** Organize a committee to select several heroes for an Agricultural Hall of Fame. Committee members should speak on behalf of their candidates. After a general discussion, the class can decide which five should be honored.

9. **Graphs:** Draw graphs to show:
   (a) the fall and rise of GNP between 1929 and 1939
   (b) the rise of the national debt between 1929 and 1939
   (c) the decline and increase in farm income between 1929 and 1939
   (d) the decline and rise in the value of exports and imports between 1929 and 1939

4. Public utilities are often considered to be "natural monopolies" because competition in those industries would be wasteful. Public utilities are characterized by very high fixed costs—that is, they must make huge investments in plant and equipment. To duplicate expensive capital equipment that is not necessary to provide adequate service to the public would be an economic waste and might even increase unit costs and prices.
The demand for the output of public utilities is often relatively inelastic. The product is a necessity (as in the case of electric power), and if the price rose by 20 percent the amount sold would drop by *less* than 20 percent. Thus, public utilities are usually legal monopolies, with price and service being regulated to protect consumers from the exploitation that an unregulated monopoly might impose.

10. **Time line:** Draw a time line to indicate the year in which specific major New Deal legislation was passed. Does your time line indicate that there was a First and Second New Deal as some historians claim? Explain your answer.

11. **Essay:** Write a short essay to answer the following question: If you were President of the United States, what measures would you adopt to sustain prosperity or to hasten recovery during a recession?

12. **Filmstrip:** Show selected reels of *The 1930's* (American Decades Series), which survey political and economic patterns, science and technology, the struggle for human rights, and cultural developments for the period under study. (Color, sound; International Film Bureau)

13. **Game:** Play "International Trade." This game emphasizes the importance of international trade in the world economy by permitting the participants to play the roles of competitive importers, exporters, traders, and bankers. (Grade level: 7–12; playing time: 2–5 hours; no. of players: minimum of 6; Science Research Associates)

14. **Filmstrip:** Show *The New Deal,* to make the events of the era of Franklin D. Roosevelt come alive. (Two color filmstrips; one LP record; Multi-Media Productions)

15. **Speaker:** Invite a speaker from the local Social Security office to address the class on some current aspect of Social Security.

16. **Graph:** Ask the students to draw a line graph indicating the increase in the minimum wage rate from 1938 to the present.

17. **Records:** Play "Talking Union" and "American Industrial Ballads" to create interest in the drive to organize the unorganized workers in the 1930s. (Folkways)

18. **Film:** *The United States in the Twentieth Century: 1932–1940* reviews the New Deal era with emphasis on major legislation. Uses newsreel clips. (21 min.; Coronet)

19. **Film:** Show *New Deal.* The film analyzes the problems of the Depression and the government's role in the economy. (25 min.; McGraw-Hill)

20. **Primary source:** Students who have access to magazine files may wish to report on "An Audit of the New Deal's First Month: What Was Promised, What Was Offered, What Was Done. Speeded Up Economic Program. Roosevelt's Efforts to Carry Out His Own and His Party's Pledges Reviewed in Detail," *Newsweek,* April 8, 1933. The article sheds light on the early days of the New Deal. The students may also compare that contemporary account with what their textbook says.

21. **Problem for analysis:** President Franklin D. Roosevelt's economic recovery program continues to affect the economy today. By 1939, the country was committed to the idea that government should accept responsibility for the national welfare. The number and size of federal government agencies increased. The presidency, of course, grew in prestige and power. Did the New Deal create as fundamental a change in American social, political, and economic life as did the War of Independence and the Civil War?
    (a) Evaluate the positive and negative effects of the New Deal.
    (b) Did World War II or the New Deal end the Great Depression? Justify your answer.
    (c) In the long run, did the New Deal alter the balance among the three major branches of the federal government? Defend your answer.

Topic 17

World War II

Economic Facts, Concepts, Principles, or Problems

- International economic problems before World War II
- Emergency controls
- Economic impact of the war
- Neutrality legislation

In previous topics we have briefly mentioned some of the economic aftermaths of World War I that helped bring on World War II. A detailed study of the international economic scene between two world wars would be worthwhile. Careful economic analysis is called for, and policies on German reparations (fixed at $56 billion), what happened internationally in respect to **tariffs**, interallied **war debts**, and **gold** ought to be evaluated by the class. Were the actions taken wise or unwise? What lessons can we derive from them?

Teachers should consult economics textbooks for explanations of different **monetary standards**. Students will need to know how the **gold standard** worked, for example, to grasp the implications of the worldwide economic crisis of 1931, to know why the Bank of England was forced off the gold standard in September of that year, and to see both the international and domestic effects of America's gold policy in June of 1933 and the **devaluation** of the U.S. dollar in January of 1934. (The price of gold was changed from $20.67 per ounce to $35 per ounce—a 40.94 percent devaluation of the U.S. dollar. When one nation devalues its currency while others do not, that nation obtains an advantage in international trade.[1])

Most basic textbooks will also explain the mechanics of trade (how **international exchange** takes place), the importance of services (invisible items) in world trade, and the meaning of **balance of trade** and **balance of payments**. An understanding of these concepts is necessary if one is to grasp *current* international economic problems as well. It should be instructive to contrast the handling of international economic matters during the 1920s and 1930s with the way in which they have been handled since World War II. (For example, note America's leadership in bringing about international economic cooperation during and after World War II in comparison with U.S. failure to cooperate fully during the London Economic Conference of 1933.)

The use of economics as a diplomatic weapon is an interesting subject for study. The Covenant of the League of Nations (1919) called for economic sanctions against nations that resorted to war. Many thought that the immense reparations payments imposed on Germany would prevent that nation from ever becoming a threat to world peace again. After Hitler's rise to power, however, Germany used trade as a device to establish economic ties with other countries and to gain their friendship. The U.S. Neutrality Acts of 1935 and 1936 provided for embargos on U.S. arms shipments and prohibited the extension of loans or credit to belligerents. In 1937 the President was authorized to extend the embargo to other products (the 1935 legislation had failed to include metals that could be converted to military use). Roosevelt called for a "quarantine" of aggressor nations, and there was a widespread **boycott** in the United States of Japanese goods.

In 1939, F.D.R. reacted to the German invasion of Poland by asking Congress to repeal the arms embargo, and this was done under the Neutrality Act passed in November of that year. In 1940, he asked Congress to step up defense expenditures and sent millions of dollars worth of arms and munitions to Great Britain. In June of that year, Congress adopted tax measures totaling nearly $1 billion in order to bolster national defense and raised the limit on the national debt from $45 billion to $49 billion. In September, Germany, Italy, and Japan signed a pact of military and economic alliance (several other nations subsequently signed this pact as well), and F.D.R. placed an embargo on exports of scrap iron and

1. Assume, for instance, that other nations did not devalue their currencies and that the prices of goods remained the same. People in France could get $35 worth of U.S. goods for an ounce of gold instead of the $20.67 worth they could get before. Thus, the French would buy more U.S. goods. Meanwhile, because Americans would have to pay $35 rather than $20.67 for an ounce of gold, French goods would become more expensive to Americans, so French exports to the United States would decline. When one nation tries to stimulate its own exports at the expense of other nations in this fashion, however, the others can simply follow suit by devaluing their currencies.

steel to all nations outside the Western Hemisphere except Great Britain.

Roosevelt was determined that the United States be better prepared for World War II than it had been for World War I. In December 1940 the Office of Production Management was organized to coordinate defense production and expedite aid to Britain and her allies. In March 1941 the Lend Lease Act was passed. It specified that American arms and supplies could be sold, transferred, exchanged, or leased to countries whose defense was deemed essential to U.S. security. (Total lend-lease aid exceeded $50 billion for all of World War II.) In July 1941, Japanese-American trade came to a halt when the President froze all Japanese credits in the United States. Even before the United States entered the war, postwar goals were being formulated. In the Atlantic Charter (August 1941), Roosevelt and Churchill, among other things, called for an easing of trade restrictions, access to raw materials, and cooperation in improving the economic position of all people, in addition to such political aims as peace, freedom, and democracy for all nations.

The government took many vigorous actions to shift resources from civilian to military production, and to bring unemployed resources into the U.S. war effort. The War Manpower Commission was established to make more effective use of our labor resources. The minimum work week was extended to 48 hours, and 27 million workers were "frozen" in war jobs. To conserve materials for military use, nonessential highway and residential construction was stopped. The Office of Price Administration set price ceilings on all goods (except farm products) and controlled rents in defense areas. Many scarce commodities were rationed. (During the World War II era—1940–48—consumer prices nevertheless rose about 70 percent, but this was an improvement over the record of the World War I era, when prices about doubled.) A National War Labor Board was given the authority to settle labor disputes by **mediation** and **arbitration.** As a result of a mine workers' strike, the government took over the coal mines in the eastern part of the United States. Because of a threat of a railway strike, the army temporarily assumed control over all American railroads.[2] Among the other agencies organized to give government at least partial control over the economy were the Office of War Mobilization, Office of Scientific Research and Development, Office of Defense Transportation, War Shipping Administration, and National Housing Agency.

It would be instructive to have the students compare the all-out **economic mobilization** of World War II with the more limited Vietnam War effort. How did World War II affect the U.S. economy as compared with Vietnam? What accounts for the differences? The cost of World War II was enormous. The **public debt** rose from about $49 billion in 1941 to over $258 billion in 1945—an increase of over 500 percent. Nearly 89 percent of the budget expenses for the fiscal years 1941–1945 were for war purposes. The costs in terms of human life cannot be quantified. In the next topic we shall deal with the economic impact of the war and how postwar problems were handled.

DISCUSSION QUESTIONS

Economic concepts, ideas, etc., that might be brought up in answering the questions are printed in **heavy type** (boldface).

1. In analyzing the international economic scene between the two world wars, some economists say that the United States helped to sow some of the seeds of World War II.
   (a) Why are American policies regarding the tariff, immigration, interallied war debts, and gold considered to have been unwise after World War I?
   (b) What lessons can we derive from the economic causes of World War II?

2. To grasp the implications of the worldwide economic crisis of 1931, one must understand how the gold standard worked. Explain the gold standard.
   (a) Why was Great Britain forced off the gold standard in September 1931?
   (b) Why did the United States devalue the gold dollar in January 1934?

   Balance of trade and balance of payments; the dollar in world trade; modified gold bullion standard.

3. How does foreign trade differ from domestic trade? How is it similar?
   Foreign exchange rates; tariff, visible and invisible items in world trade; absolute and comparative advantages; foreign investment.
   (a) Explain why Americans were able to invest $14 billion in plantations, mines, oil wells, factories, and other foreign business enterprises during the 1920s.
   (b) Why did America's foreign trade drop sharply in the early 1930s?

2. Most labor leaders adhered to a "no-strike" policy during the war, however.

Tariffs and other trade restrictions; impact of worldwide depression on trade.

4. Some knowledge of the "mechanics" of international trade is necessary to understand current economic problems. Distinguish between balance of trade and balance of payments, and between visible and invisible items in international trade.

5. Explain how the problems of German reparations and the World War I debts of the Allies were interrelated.
   (a) Why did German reparation payments break down completely by 1930?
   (b) How did the Hoover Moratorium (1931–32) deal with the problem of war debts?

6. Economics is often used as a diplomatic weapon.
   (a) Explain why the Covenant of the League of Nations (1919) called for economic sanctions against nations that resorted to aggression.
   (b) Show how Nazi Germany used trade as a device for establishing economic ties with other countries to gain their friendship. Is the same thing done by countries today?
   (c) Describe how Franklin D. Roosevelt used economic measures as diplomatic weapons prior to December 7, 1941.
   (d) Does the United States now use any economic measures to support its diplomatic policies? If so, name some.

7. During the 1920s some of the leading industrial nations believed in economic nationalism (self-sufficiency).
   (a) How does economic nationalism affect world trade?
   Tariffs and other trade barriers; exchange controls; boycotts.
   (b) How did the extreme nationalism of Hitler and Mussolini affect the economic policies of Germany and Italy before World War II?
   (c) What is the relationship between economic nationalism and an aggressive foreign policy?

8. Before World War II there were "Buy American" movements in the United States and "Buy British" movements in England.
   (a) Which economic groups promoted these movements most vigorously? Why?
   (b) Which groups opposed these movements? Why?
   (c) Would movements like these tend to shorten or lengthen a depression? Explain.
   Absolute and comparative advantages; tariffs and other trade barriers; foreign competition; impact of trade on domestic economy.

9. Protectionists believe in *national self-sufficiency* while free traders believe in *geographic division of labor.*
   (a) Explain the meaning of the terms in italics.
   (b) Which point of view do you favor? Give reasons for your answers.

10. Explain how the Reciprocal Trade Agreements Act and the U.S. Export-Import Bank of 1934 were atttempts to revive world trade during the Great Depression.

11. In the 1930s, some Americans suggested that in case of a war in Europe the U.S. could maintain its neutrality by cutting off all trade relations with the powers at war.
   (a) Show how this proposal arose out of our experiences during (1) the Napoleonic Wars, and (2) World War I.
   (b) How did the Neutrality Acts of 1935 and 1937 reflect this viewpoint?
   (c) Why did neutrality legislation fail to keep the U.S. out of World War II?

12. President Roosevelt was determined that the U.S. would be better prepared economically for World War II than it had been for World War I.
   (a) Explain the measures taken by the Roosevelt Administration before December 7, 1941, to prepare the United States for possible involvement.
   (b) Why did the Atlantic Charter (August 1941) stress economic as well as political war aims?

13. Roosevelt took many vigorous actions to shift resources from civilian to military production and to bring unemployed resources into the war effort.
   (a) Explain how the War Manpower Commission made effective use of our human resources.
   Labor as a factor of production; efficient allocation of resources.
   (b) Explain how civilian materials were conserved for military use.
   (c) Compare the functions of the War Production Board of World War II with the War Industries Board of World War I. How did the activities of these agencies modify the traditional market economy of the U.S. for the duration of the war?

14. Explain the functions of the following agencies concerned with the role of labor during the second world war: (a) War Labor Board; (b) War Manpower Commission; (c) Fair Employment Practices Committee.
   Labor as a factor of production; allocation of human resources; labor relations.

15. Why does inflation usually become a serious problem during wartime?
   (a) What was the function of the Office of Price Administration (OPA)?

(b) To what extent was it more successful in curbing inflation than similar agencies during World War I? Why was it more successful?

16. Why was an all-out economic mobilization necessary during World War II, while it was possible to carry on the Vietnam War with less economic strain?
Growth in U.S. productivity; costs of war in relation to GNP.

17. Describe both the immediate and long-range economic results of World War II, both in the United States and worldwide.
Cost of war; problems of reconstruction and development; "revolution of rising expectations"; end of colonialism; foreign aid; international economic organization.

18. "The terrible costs in terms of human life and destruction of property during World War II can't be quantified." Discuss this statement.

19. Compare war production in the Civil War with war production in World War II.

(a) How do production methods change during wartime? Why?
Standardization; technological improvements; increased demand.

(b) Are the improvements due to technological know-how or to basic scientific research? Justify your answer.

20. World War II opened up many new job opportunities to women. How did the war affect each of the following?

(a) Pay scales for women

(b) Participation of women in labor unions

(c) Demand for women's rights

(d) Job opportunities for black women

(e) Participation of women in government.
Labor shortages; incentives.

21. Discuss the similarities and differences in the causes of World War I and World War II.

22. Compare the League of Nations and the United Nations with reference to

(a) Accomplishments and failures during 1919–29 and during 1945–55.

(b) Efforts at postwar reconstruction.

23. How did World War II affect the economic opportunities of black men and women? Touch on each of the following:

(a) Job opportunities for black men and women

(b) Migration from the South to the North

(c) Demand for civil rights

(d) Race relations

(e) Fair employment practices

(f) Participation in unions

(g) Standards of living

24. World War II had profound effects on the number of married women working outside the home, the management of households, and family life. What implications did "two-income" families have for each of the following?

(a) Levels of living

(b) Use of labor-saving household appliances

(c) Service industries

(d) The food industry

(e) Family stability.

ACTIVITIES

1. **Debate:** Resolved: That America's refusal to join the League of Nations was a critical factor in bringing on World War II.

2. **Cartoons:** Ask the students to draw a cartoon or poster on one of the following topics:

Economic Nationalism vs. Free World Trade
Worldwide Depressions as a Cause of War
Trade Barriers as a Cause of War

3. **Time line:** Ask the students to draw a time line indicating the principal economic and political events leading to U.S. entry into World War II.

4. **Library research:** Ask the students to do library research on the following topics related to World War II and report their findings to the class:

Contributions of Blacks to Victory
The Miracle of Production
Guns and Butter Too!
Women's Role in World War II
America – Arsenal of Democracy

5. **Role-playing:** Let the class imagine that it is a Senate committee in March 1941 deciding whether or not to support the lend-lease bill. Various witnesses may be summoned to testify: a general, an admiral, the secretary of state, a ship-

ping magnate, a farmer, an America Firster, a representative of the British government. After debating the issues, the committee should vote for or against recommending the bill.

6. **Table:** Ask a student to prepare a table comparing the economic clauses in Wilson's Fourteen Points with their counterparts in the Atlantic Charter.

7. **Analysis:** How did the victories of the Japanese armed forces in South East Asia in the early days of the war affect the struggle for independence on the part of the colonial countries in the decades immediately following the conflict?

8. **Committee research:** Ask a committee of students to investigate and report on the outstanding scientific achievements and developments during World War II. Which one was the greatest? How did World War II scientific developments ultimately raise living standards?

9. Conduct a general *class discussion* on inflation in wartime. Structure it around three major questions:
   (a) Why are wars usually accompanied by inflation?
   (b) How did the measures adopted by the administration of Franklin D. Roosevelt help to control inflation during World War II?
   (c) Evaluate the success or lack of it of each of the measures in (b).

   (For a better informed discussion, assign each of the following measures to individual students for research and presentation: heavier taxation, price ceilings, wage stabilization, rationing, expanded war savings (government bond) program, restrictions on installment buying and use of credit, rent control.)

10. **Analysis:** Read the Atlantic Charter, selecting the economic provisions for special study. Explain the purpose of each economic provision and show how its implementation would lead to a more stable peace.

11. **Interviews:** Ask the students to interview their relatives and friends for a first-hand account of economic conditions in the United States during World War II. Questions might touch on rationing, shortages, housing, jobs, overtime, etc.

12. **Graphs:** Ask the students to draw a line graph indicating the increase in the national debt between 1933 and 1953. Another line graph might deal with the changes in the Consumer Price Index between 1929 and 1953.

13. **Filmstrip:** *Understanding International Trade* describes the advantages of international trade and the sources of balance of payments problems. (McGraw-Hill)

14. **Film:** *World Trade for Better Living* shows how foreign trade is beneficial to nations and stresses comparative advantage. (20 min.; Encyclopedia Britannica)

15. **Bulletin board display:** Create a bulletin board display showing various aspects of life during World War II. Include
   (a) A list of popular songs and movies
   (b) Clippings and pictures of the effects of the war on the everyday lives of ordinary Americans
   (c) Magazine and newspaper headlines about home-front economic hardships
   (d) A list of books on World War II

16. **Film:** Show *The Arsenal* (Alistair Cooke's America Series). The film explains how the United States went from being an Anglo-French arsenal before our entry into World War II to the greatest military supplier in the world. (Color, 52 min.; Time-Life Corporation)

17. **Film:** Show *Total War* (1969). Depicts the economic impact of World War II. (Black and white, 25 min.; Learning Corporation of America)

18. **Filmstrip:** *Home Front, World War II* (1979) shows how the lives of Americans at home were affected by shortages, women in the war effort, and gasoline and food rationing. (Two filmstrips, one cassette, teacher's guide; Multi-Media)

19. **Filmstrip:** *FDR: A Portrait of Power* traces Roosevelt's political career, touches on his leadership qualities, and his crucial role in World War II. (Color, cassette, guide; Social Studies School Service)

20. **Problem for analysis:** Which was the heavier contributor to victory for the Allies in World War II, the United States or the Soviet Union? Ask some in the class to argue each side, and then have the class try to reach a consensus. The activity may take the form of a round table or panel discussion, followed by general class particiation.

Topic 18

Postwar Recovery and Development

Economic Facts, Concepts, Principles, or Problems

- Marshall Plan
- OEEC
- Truman Doctrine
- World Bank, IMF, GATT
- G.I. Bill
- Trade agreements
- Common Market
- Taft-Hartley Act

The surrender of Germany and Japan did not bring an end to the world's problems. First, there was the task of converting to a peacetime economy; second, something had to be done about the millions of people facing starvation in various parts of the world; and third, Western countries were afraid that communist influence and control would spread.

U.S. fears that another Great Depression was impending were based upon the fact that 11 million men and women were being discharged from the armed forces, that some 20 million civilian workers employed in producing military goods were no longer needed for that purpose, that thousands of government contracts for war material would have to be cancelled, and that a declining demand for farm products would send agricultural prices plunging. As early as 1944, however, the government had started to plan for postwar conversion of the economy to a peacetime basis. There would be unemployment insurance and job-creating public works projects for workers and, if agricultural prices dropped, aid to farmers. The G.I. Bill of 1944 provided special unemployment insurance and schooling, as well as housing and business loans for veterans. The G.I. Bill not only helped prevent a possible serious postwar unemployment problem, but brought full rosters of students to schools and colleges. (These institutions had suffered during the poor prewar economic conditions and had lost most of their male and a large number of their female students during the war.) In addition, the bill enabled many people to get an education they could not otherwise afford (a factor that benefited society as a whole as well as the individuals being trained), and stimulated a wave of home building. Education is seen by economists as an **investment in human capital,** and the training received by the veterans improved their ability to produce. As a result, they earned higher incomes than otherwise and thus contributed more to the government in taxes. Economists estimate that the higher taxes paid by veterans who were educated under the G.I. Bill have actually repaid the government for the full cost of the bill.

Consumer goods had been in short supply during the war,[1] and because it took factories time to convert to peacetime production, the shortages continued for a while. Prices rose sharply between 1945 and 1948, as consumer demand was high and as rationing and price controls were quickly removed. Industrial plants reconverted to civilian output in a remarkably short time, although shortages in housing and automobiles persisted into at least 1948.

America's decision to aid war-stricken nations was a humanitarian gesture but also had economic implications. By helping other countries to recover, the United States was creating markets for its own goods. In 1946 and 1947, the United States provided $8 billion in free food, medicine, clothing and other necessities. The Soviet Union had brought Eastern Europe under communist control, and when it seemed that Greece and Turkey might also come under Soviet domination, $400 million dollars were obtained from Congress in economic and military aid to help those two countries. This policy was known as the **Truman Doctrine.** Then, between 1947 and 1951 under the **Marshall Plan** (the European Recovery Program), the United States spent about $12 billion in loans and grants to help Western Europe recover from the war. Sixteen nations formed the **Organization for European Economic Cooperation** (OEEC) to cooperate with the U.S. in this effort.[2]

1. Actually, the output of civilian goods was larger during the war than before, but the increased employment and income resulting from the war caused civilian demand to increase even more.
2. The Marshall Plan was instrumental in building the foundations of Western Europe's later prosperity. The plan also fostered the idea of greater European economic unity.

   The OEEC later evolved into a larger group of nations that

THE KOREAN WAR, which erupted in 1950, did not require the all-out mobilization of World War II, but an Office of Defense Mobilization was organized to control war production, procure military supplies, and control transportation. Wages and prices were partially controlled. However, U.S. productive resources were already fully employed, so the government had to compete with consumers and businesses to obtain the goods and services it needed for the war. As a result of these demand pressures, consumer prices rose by about 12 percent. The pure price rise would have been greater were it not that, at the height of the war, only 15 percent of U.S. output was being devoted to military needs. The fact that the U.S. could fight a war—albeit a minor one—with such a small proportion of its output was suggestive of the size and strength of the U.S. economy.

AFTER WORLD WAR I, many nations had tended to pursue their own interests and to think that they could enrich themselves at the expense of others. Recalling past failures in international economic cooperation, the allied leaders during World War II took action while the war was still in progress to prevent any repetition of the economic chaos of the 1930s. At a meeting in Bretton Woods, New Hampshire, in 1944, representatives of 44 nations established the **International Monetary Fund** (IMF) and the **International Bank for Reconstruction and Development** (World Bank). The IMF was designed to assist nations who faced shortages of foreign exchange because of temporary problems in their balances of payments. Each member (there were 146 member countries in mid-1983) puts in some of its own currency plus a certain amount of gold—the amounts depending on the nation's relative international economic strength and its economic size. A member finding itself short of foreign exchange can ask to borrow from the fund. For instance, the French need U.S. dollars in order to purchase American goods. If they were unable to earn enough dollars by selling French products to Americans or else had insufficient reserves of dollars or means of buying dollars, they could borrow dollars from the IMF. France would put francs into the fund until it was able to repay the dollars, but the U.S. goods could be purchased and France would have a better chance of correcting any weaknesses in its economy that led to the problem in the first place.[3]

The **World Bank** (International Bank for Reconstruction and Development) was established to help war-ravaged nations recover and to help poor countries to develop their economies—the latter is now its basic endeavor. Members (usually the same nations that belong to the IMF) contribute capital in accordance with their economic strength, but most of its funds come from borrowing in world financial markets. The bank then relends this money. At first, most loans went to European nations for rebuilding, but now the funds go to developing countries—mostly in Africa, Asia, and Latin America. The bank must be satisfied that projects are well-planned and will benefit the applicant nation, and that the borrower will be able to pay a rate of interest related to the bank's own cost of getting funds and to repay the loan in twenty years or less. The bank also helps train officials responsible for the project, assists with technical aspects, inspects the project periodically, and requires progress reports. The bank's cautious approach has prevented losses (indeed, the bank has been making money), but some of the poorest nations have been unable to qualify for loans. For this reason, the **International Development Association** (IDA), a subsidiary of the bank, was set up to make loans to the poorest countries. These loans are for fifty years (with no repayments due in the first ten years), and carry no interest.

In 1947, the United States, along with twenty-two other nations, signed the **General Agreement on Tariffs and Trade** (GATT) to promote freer trade. (GATT now has more than eighty members.) The members meet regularly to review trade policies, reduce tariffs, eliminate import quotas, and apply the **most-favored-nation principle.**[4] Agreements are negotiated at plenary sessions. This lowers the chance that two or more nations will make some sort of mutually beneficial agreement that is harmful to another. All the theories and principles of international trade can be reviewed in a classroom evaluation of the effectiveness of GATT. The **United Nations Conference on Trade and Development** (UNCTAD), which was formed much later than GATT at the behest of the developing countries, may be similarly evaluated.

Other important international organizations are the **Common Market** (European Economic Community) and the **Organization for Economic Cooperation and**

consult among themselves on economic policies and developments, collect statistics on a unified basis, and engage in other forms of economic and social cooperation. Its name was changed to the Organization for Economic Cooperation and Development (OECD), and now includes nations outside of Europe: Australia, Canada, Japan, New Zealand, and the United States. As of early 1983, the total membership consisted of twenty-four developed nations plus Yugoslavia, which has a special status.

3. Of course, this is an overly simple account of international exchange and the workings of the IMF. Consult a standard economics textbook for details.
4. In general, under the most-favored-nation principle, concessions on trade rules or tariffs that one nation grants to a second must be granted to all others.

Development (see footnote to discussion of Marshall Plan, above). Although not a member of the Common Market, the United States supported the Common Market's creation. The Common Market has become both a serious competitor and an important customer. The work of several groups in the United Nations – the Economic and Social Council (ECOSOC), the Educational, Scientific and Cultural Organization (UNESCO), the Food and Agricultural Organization (FAO), and the World Health Organization (WHO) are also of interest.

Among important domestic problems occupying American attention after World War II were labor-management relations. Previous labor legislation, such as the Wagner Act, should be reviewed. Many unions had given "no strike pledges" during the war and, although there were many disputes, little time was lost because of strikes. By 1945, union membership reached 15 million (membership was less than 3 million in 1933). Feeling that during the war business profits had been held down relatively less than labor's wages, many workers demanded increased wages as soon as the war ended. There were 4,750 strikes involving 3,470,000 workers in 1945. Business complained that the Wagner Act was tipping the scales in labor's favor, and the public became alarmed over strikes in important industries. The result was the **Taft-Hartley Law** of 1947, which amended the Wagner Act by providing employers with additional protection. Unions were to refrain from using force or threats to make a worker join a union or participate in a strike; unions could no longer refuse to bargain with employers, force management to hire more workers than needed, strike without giving sixty day's advance notice of complaint, or insist upon a closed shop (an agreement that a company hire only union members). The National Labor Relations Board was now obligated to protect the employer as well as the worker from unfair actions, and machinery was set up to allow government interference in important labor disputes that might threaten the public health or safety.

Students can be asked to evaluate Taft-Hartley in terms of its stated purposes, labor's charge that it was a "slave labor law," and management's hope that it would help to end damaging labor disputes. A value question that might be discussed is that of government's proper role in the process of **collective bargaining.** Government's involvement in labor affairs was extended further with the passage of the **Landrum-Griffin Act** of 1959, a result of congressional findings that a few unions were being operated by gangsters. This act requires that unions be democratically controlled and contains provisions for keeping dishonest persons from holding union office.

DISCUSSION QUESTIONS

Economic concepts, ideas, etc., that might be brought up in answering the questions are printed in **heavy type** (boldface).

1. The surrender of Germany and Japan did not solve the world's economic problems. In fact, it created additional ones.

   (a) Discuss three serious international economic problems that were direct results of World War II.
   Relief and reconstruction of war-torn countries; reconversion to peacetime economy; the need to foster international economic cooperation.

   (b) Describe some of the organized steps taken by the United Nations and the United States to cope with these problems.
   UNRRA; UNESCO; Marshall Plan; Point Four.

2. Why did a serious postwar inflation occur in the U.S. between 1946 and 1950?
   Pent-up demand; removal of price-wage controls; cost-push inflation.

   (a) How did the Truman administration attempt to control inflation during the Korean War?

   (b) In what ways was the inflation that came during the Vietnam War similar to the inflation of World War II and the Korean War?
   Government spending and inflation; government efforts to control inflation.

3. What is the Consumer Price Index?

   (a) How does the CPI measure the rate of inflation?

   (b) Compare the current CPI with the CPI of a previous year. What does it tell you about the change in average consumer prices?

4. Why did many Americans fear that a depression would follow World War II? Why did the United States escape a serious depression after World War II?
   Postwar depressions; business cycle; built-in stabilizers; fiscal and monetary policy; pent up demand.

5. The G.I. Bill of 1944 was a piece of far-sighted federal economic legislation.

   (a) State the principal provisions of the G.I. Bill.

   (b) How did the G.I. Bill (1) help to prevent serious unemployment, (2) aid the nation's colleges and universities, (3) help increase American productivity?

(c) Why was the G.I. Bill considered an "investment in human capital"?

6. America's decision to aid war-stricken nations was a humanitarian gesture but also had economic implications.

   (a) Explain how the money spent by the U.S. on foreign economic aid ($141 billion from 1946 through 1981) can benefit both the giver and the receiver.

   (b) Why has foreign aid been severely criticized in Congress in recent years?

7. Explain the purposes of the Truman Doctrine and the activities carried out under it. To what extent was it a success? Justify your answer.
   Expansion of the influence of the Soviet Union; foreign aid; economic development; economics and diplomacy.

8. What was the Marshall Plan?

   (a) Why did the U.S. offer to help Western European countries help themselves?

   (b) Describe the principal achievements of the Marshall Plan.

   (c) Show how the Marshall Plan helped plant the seeds of European economic unity.

   (d) Why did the Soviet Union oppose the Marshall Plan and refuse to enter it?
   Economic aid; economic reconstruction; economic development; Schuman Plan; Common Market.

9. Does it appear that the European Common Market may be the forerunner of a United States of Western Europe?

   (a) Describe the European Common Market.
   Specialization and exchange; free trade; economic unity.

   (b) Why did Britain and several other countries show a desire to join the original members of the Common Market in the early 1970s?

   (c) Discuss effects of the Common Market on the economy of the U.S.
   Foreign competition; foreign investment; foreign markets.

10. At Bretton Woods, New Hampshire, in 1944, 44 nations furthered international economic cooperation by creating the World Bank and the International Monetary Fund.

    (a) How has the World Bank promoted world economic development since its founding?
    Development and growth; supply of capital through loans; technical assistance and advice.

    (b) How does the International Monetary Fund (IMF) function?
    Balance of payments problems; IMF lending; foreign exchange; world trade.

    (c) Why do underdeveloped nations sometimes criticize the World Bank's policies?

    (d) In spite of the existence of the World Bank and the IMF, a world financial crisis occurred in 1971. How can this be explained?
    Balance of payments; international trade; dollar and gold in world affairs; rates of exchange; strong and weak currencies; supply and demand applied to foreign exchange.

11. An effective agency in restoring vigorous world trade has been the General Agreement on Tariffs and Trade (GATT), established in 1947.

    (a) What was the purpose of GATT?

    (b) Why does GATT apply the "most-favored-nation principle"?

    (c) Do you favor free trade or protection in regard to U.S. imports of textiles, cars, and electronic equipment? Justify your answer.

12. Explain the roles of the FAO, UNESCO, and WHO in achieving one of the aims of the United Nations Charter—"to promote social progress and better standards of living."

13. Many strikes occurred immediately after the end of World War II. Why?

    (a) Discuss the possible effects of serious labor-management disputes on the public's convenience and on the economy.

    (b) How did the Taft-Hartley Act of 1947 attempt to deal with the problem of strikes?
    Distribution of income; wages and working conditions; government's role.

14. Employers saw the Taft-Hartley Act as a long overdue measure needed to correct the "abuses" of union power, while labor leaders contended that it violated American traditions of freedom and "enslaved" the workers. With which point of view do you agree? Give your reasons.

    (a) Describe the role of the federal government in maintaining labor peace under the Wagner Act. How was this role changed by the Taft-Hartley Act?

    (b) How do the Taft-Hartley and Landrum-Griffin acts show a change in the federal government's attitude toward organized labor?

15. Which of the following laws received the approval of organized labor? Which did unions oppose? Why? (a) Wagner Act; (b) Fair Labor Standards Act; (c) Social Security Act; (d) Taft-Hartley Act; (e) Landrum-Griffin Act; (f) "right-to-work" laws.
    Distribution of income; collective bargaining; minimum wage; social insurance; government's role in the economy; role of unions.

16. Legislators constantly face the problem of enacting laws that promote the welfare of the people without at the same time seriously curtailing fundamental freedoms of the in-

dividual. Show how legislatures faced this problem when considering the following: (a) fair employment practices; (b) right-to-work laws; (c) antitrust laws; (d) minimum wage laws; (e) environmental legislation.
Distribution of income; collective bargaining; monopoly; wage theories; conservation.

17. Explain the causes of the Cold War.
    (a) Why did the friendly public attitude toward the USSR as an ally during World War II change after the war?
    (b) Why did the United States follow a postwar policy of "containment" toward the Soviet Union?

18. Explain why West Germany recovered so rapidly after the close of World War II.
Infrastructure; technological know-how; American aid.

19. Compare the German and the Italian postwar economic experiences. How were they alike? How did they differ?
    (a) Could the German "economic miracle" have taken place without American aid?
    (b) Without French cooperation?
    (c) Explain why, in general, the economic growth rates of most European countries exceeded the American growth from the early 1950s to the early 1970s.
American aid; new, modern technology and plants; reconstruction.

ACTIVITIES

1. **Then and now:** In order to demonstrate the progress labor in the United States has made in the last century or so, ask the students to present then-now reports on the following topics:
    Wages and fringe benefits
    Hours and vacations
    Health plans
    Employment of women and children
    Retirement benefits
    Legality of union activities
    Collective bargaining

2. **Individual research:** Ask several students to analyze why some large national unions remain outside of the AFL-CIO.

3. **Role-playing:** Transform the class into a congressional subcommittee dealing with a bill to approve a substantial appropriation for military and economic aid to countries in an area in "crisis" where American interests are involved. Witnesses asked to appear might include a high military officer, a lobbyist, a representative of an antiwar group, a veteran, a manufacturer of arms, airplanes, etc., an ambassador from one of the countries involved. After a general discussion, let the committee vote either to recommend or kill the bill.

4. **Time line:** Ask the students to draw a time line indicating the major economic and political measures taken by the United States in response to the Cold War crises of 1945–65.

5. **Classroom reference corner:** Class and teacher can cooperate in establishing a classroom reference corner on labor. Collect pamphlets, newsletters, and books for a small shelf of publications on labor history, labor's goals, and labor's problems.

6. **Bulletin board display:** Ask the students to make a "Yesterday–Today" bulletin board display on farming in the twentieth century. Pictures, drawings, graphs, etc., can be used to show the change that has occurred since 1900. Other possibilities include a bar graph showing the urban population as a percent of the rural population by decades since the turn of the century, and a pictograph showing the number of people a farmer could feed in 1900, 1920, 1940, 1950, 1960, 1970, 1980, and today.

7. **Student reports:** Ask individual students to do library research and report on the following topics:
    The postwar nuclear arms race
    The policy of containment
    The Truman doctrine
    NATO
    Successes and failures of the United Nations

8. **Role-playing:** Organize the class as a congressional committee hearing arguments about restricting abuses by some labor unions as part of the hearings on the Landrum-Griffin Act. In setting up the sessions, ask some of the members of the class to familiarize themselves with the attitude and arguments of the unions, some with those of the employers, and some with those of the public at large.

9. **Debate:** Resolved: That right-to-work laws be repealed.

10. **Speakers:** Invite a local union leader to class to answer questions and to present the views of organized labor on pertinent current legislation before Congress. At the same time, or on the succeeding day, ask a representative of management to do the same thing from management's point of view.

11. **Graph:** Ask the students to illustrate the extent of post-World War II inflation by charting the increase in prices between 1933 and 1953.

12. **Essay:** Ask the students to do library research and then write an essay on economic conditions in the United States

during the Korean War. Urge them to emphasize government actions to control inflation during this period.

13. **Map:** On an outline map of Europe, ask the students to indicate by different shadings or colors the countries helped by the Marshall Plan and the Truman Doctrine. The countries behind the "Iron Curtain" should be labeled also.

14. **Sound filmstrips:** Show selected reels of *The 1940's* and *The 1950's*, a series of color filmstrips in the American Decades Series, which survey political and economic patterns, science and technology, the struggle for human rights and cultural developments during the periods indicated. (International Film Bureau)

15. **Film:** *Inflation* describes the causes of the inflationary spiral during the immediate post-World War II period and suggests appropriate fiscal policies to curb price rises at that time. (20 min.; Encyclopedia Films)

16. **Newspapers:** Organizations like UNICEF and WHO combat poverty, famine, and illness throughout the world. Ask your students to bring to class newspaper articles about such problems. Watch for articles about natural disasters and about foreign nations in which famine has become a major problem. How do organizations like the Red Cross and CARE help in these situations?

17. **Simulation:** If your class is small, play *Trade-Offs at Yalta*. The game enables students to re-enact the roles of the Yalta diplomats. (Scott Educational Division)

18. **Panel discussion:** Assign books that describe imaginary societies, such as *1984*, *Animal Farm*, and *Looking Backward*. Hold a panel discussion in which the students discuss, defend, or attack the contrasting societies depicted in such books. By way of summary ask: Could socialism play a constructive role in the countries of Western Europe? Does some form of planned economy play a constructive role in developing nations?

19. **Booklet:** *The Mystery of Economic Growth* (Federal Reserve Bank of Philadelphia, Public Information Department, P.O. Box 66, Philadelphia, PA 19105, 9 pp., rev. 1979; free). The publication describes actions and events that make the economy grow or stagnate, and discusses the role of government and the private sector.

20. **Problem for analysis:** Since World War II, many nations in Western Europe have been seeking a middle way between capitalism and socialism. While private ownership still predominates, a higher proportion of resource allocation is government-directed in Western Europe than in the United States by means of government-owned industries and extremely comprehensive social insurance programs. Of course, taxes are generally higher in Western Europe than in the United States. Is greater convergence (more socialist measures taken in the more capitalist countries and more capitalist measures taken in the more socialist countries) likely to occur in Western Europe?
    (a) What features of the welfare state do you like? Dislike? Why?
    (b) Why are taxes generally higher in Europe than in the United States?
    (c) Why are some countries in Western Europe called "socialist" although 90 percent of the industry is in private hands?
    (d) The doctrine of laissez faire developed in eighteenth century England. Why did England turn away from laissez faire during most of the twentieth century in order to solve its economic problems?

Topic 19

The Rise of New Nations

Economic Facts, Concepts, Principles, or Problems

- Underdeveloped economies
- The vicious circle
- Overpopulation and other problems
- Foreign aid and investment

MANY NEW NATIONS have made their appearance since World War II, in large part because their status changed from that of colonies to independent nations. Some, such as India, were giants at birth; others were small both in terms of population and land area. Freedom from foreign control, however, did not assure economic independence. Many lack the resources even to provide for the minimal needs of their citizens. Some have an abundance of land and natural resources but do not have the technical know-how to be able to exploit those resources efficiently.

There is no universally accepted definition of a "developing" or "underdeveloped" nation—common terms for the newly emerging countries—but most that are so classified clearly suffer from a low level of living. Among the typical conditions is short life expectancy. For example, the life expectancy of an American in the late 1970s was about 74 years, while that of an Indonesian was only about 50 years. Haiti's infant mortality rate is about ten times that of the United States. In the United States there is one physician for every 500 people, in Pakistan the ratio is one to about 6,000. These are by no means the worst comparisons that can be made. High illiteracy rates, bad living conditions, inadequate roads, few schools and hospitals, and shortages of skilled workers are common in such countries. About 70 percent of the world's people live in countries that can be classified as poor or as in need of considerable economic development.[1] Some typical conditions are described in what follows.

Overpopulation can be a problem, as it is , for example, in Bangladesh and El Salvador, where **population density** was about 1,670 and 570 people per square mile, respectively, in the early 1980s. The U.S. figure was 63 in 1982. It should be noted, however, that a high population density does not per se imply poverty, nor does a low density guarantee wealth. The important factor is population in relation to the nation's productive resources; the Netherlands is very prosperous with a density in excess of 900. Students should realize that the United States was once an underdeveloped nation (and some parts of the country may still be considered underdeveloped), and it would be useful to have them contrast the problems the United States faced as a new nation with those of the new nations of today. For instance, the new United States had a small population and a huge land base with abundant natural resources. Many of the new nations of the post-World War II period have large populations on small land bases with relatively few resources.

The population growth rate should also be taken into account, especially when examining the GNP (or GDP) of a nation. To interpret the GNP it should be divided by the population to get the amount **per capita.** Thus if a nation's GNP is growing at a 3 percent rate, but its population is growing at a 4 percent rate, per capita GNP will show a decline, implying that income per person is actually diminishing.

Lack of natural resources is another frequent problem. The United States is one of the world's leading nations in terms of the amount and variety of resources it possesses; many of the new nations have sparse resources, a small selection of them, and must rely upon the sale of one or a few products for their economic well being. If the world market for their output declines, their economies can suffer severely. They are also vulnerable when "supply shocks" occur, such as the oil shortages and oil price rises of the 1970s which greatly damaged the development abilities and plans of the poorer nations.

1. In 1982 the World Bank classified 121 of the world's nations as follows: Twenty-five "industrial" countries with about 25 percent of the world's population produced about 80 percent of the world's gross national product. (These figures include several communist countries.) Sixty-three "middle income" countries with about 25 percent of world population produced about 15 percent of world GNP. Thirty-three "low income countries" with about 50 percent of the world's population produced about 5 percent of world GNP.

CAPITAL IS OFTEN in short supply. The underdeveloped areas have only about one-twentieth of the capital owned by the richer nations. To have capital there must be savings. That is, people must be willing and able to defer consumption so that **capital investment** can occur for either the production of important services or of agricultural or industrial goods. In countries where the per capita income is so low that every penny earned by the average person is spent immediately on consumer goods, there can be little capital investment. In many cases the handful of rich people who do have savings either choose to spend their money on luxury imports or to invest it in developed nations where the risk is lower and the potential returns are more certain. Indeed, in some poor countries the **net capital formation rate** has been less than zero. That is, the existing **stock of capital** (factories, machines, tools, etc.) wears out faster than it is replaced.[2]

Social capital—roads, bridges, tunnels, harbors, airports, schools, power plants, and water supply facilities—too, is scarce. Industry often requires much social capital in order to produce and distribute goods and services. There is little point in locating a factory where there is no power and where there are no means of moving goods in and out. But the prospects for operating such facilities at a profit are often nil, so private business usually does not invest in them. Thus, governments often try to provide the necessary social overhead capital.

A shortage of capital is part of a **vicious circle.** When a nation's income is low, and personal incomes are consequently also low, the level of savings will be low. With low savings there will be little capital investment. With low capital investment there is a lack of plants, equipment, and technology, and thus **productivity per worker-hour** will be low. Low productivity, in turn, implies low income—and we are right back where we started from. (See Diagram 19-1.)

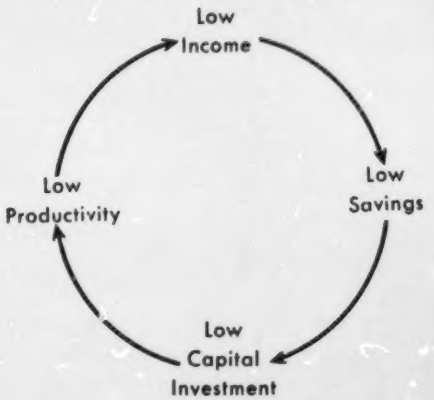

DIAGRAM 19-1

Some political factors tend to aggravate economic problems. Weak governments, political unrest, and administrative inefficiency discourage foreigners from investing in the newer nations, although foreign investment is often desperately needed to break a vicious circle and provide essential capital. Foreign owners often fear that their assets (properties or funds) will be seized or that the local government cannot or will not protect assets or personnel. If actions of this character are directed at foreigners, citizens who possess savings of any magnitude may be impelled to send their money abroad for safekeeping or for safer investment in the industrialized nations of Europe or North America. (The process of sending money elsewhere because of insecure conditions within a country is called "capital flight.")

Cultural factors that sometimes hamper economic progress are caste systems, sectional and tribal animosities, linguistic and religious differences that impede national unity and communication, and adherence to outmoded traditions. For example, the people in one of the poorest African nations regard agriculture, trade, and manufacturing as low-caste occupations—the raising of livestock being the only respectable pursuit—although the country badly needs these activities. In another, there are some 48 different tribal groups, many with different religious systems, languages, and cultural habits.

In many countries the rich send their children abroad to study in foreign universities, but too often these students obtain degrees in fields that give them high prestige but have little practical value at home. Thus, there is frequently an absence of a middle class made up of technicians and tradespeople. A few rich families at the top control the government, refuse to raise taxes on themselves (although they are the only ones capable of paying higher taxes), block attempts at land redistribution, and fail to take other steps necessary for economic development. The great masses of the poor at the bottom are prevented from rising by caste barriers or lack of educational facilities.

BECAUSE SO MANY of the underdeveloped areas lack the resources, technology, and know-how to cope with their economic problems, it is widely—although not universally—believed that aid from the richer countries

2. The gross capital formation rate is the percentage of GNP accounted for by capital investment. If a country's GNP is $900 billion, and $90 billion of this is spent on capital formation, then the rate would be 10 percent. But some capital goods are produced to replace old, obsolete, or worn-out items, i.e., to replace "depreciated" capital goods. We deduct this depreciation from the gross capital formation figure to get net capital formation. If $45 billion worth of existing capital is obsolete or worn out and being replaced, then the net capital formation rate in the above example is 5 percent.

is absolutely necessary. Of course, there are differences of opinion on how much aid is needed, what form it should take, how it should be administered, who is responsible for providing assistance, and the like.

At least until a healthy rate of **real growth** is established and the most pressing needs are met, many newer nations may need to rely on greater government involvement in the economy than would be generally accepted in the United States. They must find out what resources they already have (the lack of reliable statistics is appalling in many cases), what their problems are, and what reasonable short-term and long-term goals they can adopt. An economic program to spell out the means by which the goals are to be achieved can then be drawn up. Social reforms may be necessary to bring about a more equitable distribution of land and income; foreign investment might be encouraged through guarantees against discriminatory taxation, expropriation, and property damage; the educational system must be geared to the nation's economic needs; a sound system of money and banking must be established and maintained; social overhead capital must be developed; and where population is a problem, some means of curbing population growth may be indicated.

Two points just mentioned merit further discussion. The first is that a sound system of money and banking is needed not only because it facilitates economic exchange and development, but to help control inflation. Inflation is often a serious problem in developing nations. Ironically, the attempt to speed development can lead to rising prices. Workers are required for needed long-term projects, such as road-building. Newly earned wages are often spent immediately for consumer goods but the output of consumer goods does not keep pace; hence, prices go up. (The inflation can then feed upon itself as people spend their money faster in the hope of beating the rising prices.) If workers have been drawn from agriculture, prices of food may rise because the loss of farm workers may mean a reduced supply or higher costs of production. Meanwhile, the rich put their money in gold, jewelry, or real estate instead of productive enterprises and facilities because the value of such items will rise along with the general price level. Some people may engage in speculation or put their funds in foreign banks or buy foreign securities.

A second point worthy of elaboration is that means of curbing population growth are needed most where population growth outruns the rise in GNP. In the late 1970s, Kenya, the Ivory Coast, Bangladesh, and Honduras – among others – were experiencing population growth rates of more than 3 percent, which were well in excess of the growth in their GNPs. (The United States and other developed countries – such as those in Europe – had just the opposite experience.) In some less developed countries the Malthusian Law seems to be at work – population seems more or less to increase in geometrical progression while the food supply increases in arithmetical progression, that is, population tends to double about every twenty-five years: 1 to 2; 2 to 4; 4 to 8. Meanwhile the food supply tends to increase much more slowly, 1 to 2; 2 to 3; 3 to 4. But taking the poorer nations as a whole, their birth rates and population growth rates are declining, a trend which improves the outlook for greater economic development.

Aid to poorer nations can take the form of grants of money, loans, gifts of capital goods, technical assistance (including the use of personnel with special skills), trade concessions, etc. U.S. government aid to all foreign nations has totaled more than $225 billion (net of repayments) since 1945. Although altruism has been an important motivation for U.S. aid, and although it accomplished a great deal, critics have charged that much of our aid has been politically motivated (that is, has been used to ensure the friendship of others in the Cold War), that too much has gone for military as opposed to economic assistance (about one-third of total aid in the five years 1977–81), that economic aid to developing countries has, on the whole, been too small. The class might examine these and other criticisms, attempt to determine the benefits that have been derived from foreign aid (for the donor as well as the recipient),[3] and decide what future U.S. aid policy should be.

The amount of aid stated in U.S. dollars should be computed as a percentage of GNP and compared with similar figures for other donors, such as France, the United Kingdom, Germany, and Japan. In recent years the United States has been giving less than one-half of one-percent of GNP, while many other nations have been giving more.[4] Some people believe that all the developed nations should contribute substantially higher amounts, and that aid should be channeled through the United Nations, the IMF, the World Bank, or other international agencies, so that it will be used solely for economic development and not for political or diplomatic advantage. This, too, should be a subject for classroom discussion.

3. Supporters of aid argue that the donor stands to benefit because the recipient will become a better customer for the donor's goods and, in many cases, a more stable source of raw materials.
4. If we look only at aid for economic development—that is, excluding military aid—the United States was giving only 0.2 percent of its GNP in 1981, while at least sixteen other industrial nations were contributing larger shares of their GNPs. Most aid given to foreign nations by the United States is spent on goods made here and shipped from here.

DISCUSSION QUESTIONS

Economic concepts, ideas, etc., that might be brought up in answering the questions are printed in **heavy type** (boldface).

1. How would you define a "developing" or a "less developed" country?
   Relatively low or low productivity; relatively low or low living standards; relatively low or low per capita income.
   (a) Where are most of the world's developing nations located?
   (b) Discuss the economic and social characteristics of developing countries.
   Lack of capital, technical know-how, savings and investment; tendency to rapid population growth; shaky governments; social customs that hamper development.

2. What is meant by a "vicious circle of poverty"?
   (a) Explain how this term applies to developing nations.
   (b) What can be done to end a vicious circle?

3. What are capital goods? Why are they important?
   (a) Why is saving necessary in order to create capital?
   Savings and investment; capital formation.
   (b) How do capital goods contribute to economic growth?
   Productivity.
   (c) Why is domestic capital accumulation difficult in developing nations?
   Low productivity; limited social capital.

4. Why is the rate of capital formation lower in developing nations?
   Lack of savings; "flight of capital".
   (a) What is the difference between the gross capital formation rate and the net capital formation rate?
   (b) Why is the net capital formation rate in some poor countries actually less than zero?

5. Why is it difficult for developing nations to attract capital investment?
   Lack of infrastructure; undeveloped markets; unskilled and semi-skilled labor force; political instability.
   (a) What can developing nations do to encourage foreign investment?
   Stabilize government; provide education; create infrastructure.
   (b) Why is it difficult to eliminate disguised unemployment?
   Subsistence vs. market farming; underemployment; unskilled, uneducated labor force.

6. What is meant by social capital (or social overhead capital)? Why is social capital necessary for economic growth?

7. Why is inflation often a problem in developing nations?
   Supply and demand; high propensity to consume; costs and output.
   (a) How does inflation hurt a nation's position in world trade?
   Rising prices deter sales in export markets.
   (b) How can governments in developing nations prevent or hold down inflation?
   Monetary and fiscal policies; increased productivity; imports; savings.

8. Discuss some of the social and cultural factors that block or retard economic progress in a developing nation such as India. What steps can a nation take to ovecome these obstacles? What has India done, for example?

9. Why do many believe that the richer nations should help the poorer? What forms can economic aid take?
   Grants and loans; gifts of capital items; technical assistance; trade concessions.

10. Why do most developing nations make greater use of government planning for economic development than does the U.S.?

11. Compare and contrast the problems faced by the U.S. as a developing nation in the nineteenth century with those encountered by developing nations in the twentieth.
    Consider population, foreign investment resources, technology, political stability, etc.

12. Evaluate the nature and extent of American and Soviet economic aid to developing nations since World War II ended.

13. Which of the following is the greatest need of the developing areas today? (a) More capital; (b) more native entrepreneurs; (c) trade; (d) agrarian reforms; (e) curbing population growth. Defend your point of view.

14. What is the relationship between population and economic growth?
    (a) Why is the population growth rate taken into account when examining a nation's GNP?
    Per capita GNP; real growth.
    (b) Why do some economists say that the Malthusian Law of Population is at work in underdeveloped areas today?

15. Why is American foreign aid often criticized?

    (a) Does aid help the donor as well as the recipient?

    (b) Would it be better to funnel all economic aid through the United Nations? Why or why not?

16. If you were the minister of economics in a developing country, what policies would you adopt to stimulate growth in your country?

17. "The outlook is bleak indeed for two-thirds of the world's population. While some developing nations will graduate to the ranks of the developed, many—perhaps most—are doomed to remain dropouts in this important race." Discuss this statement.

18. How can the United States help the developing nations?

    (a) What forms can American aid take?
    Financial; technical; humanitarian.

    (b) Why is it in our interest to assist economic development in the developing countries?
    International trade; markets; sources of raw materials; world peace.

19. Discuss the World Bank as an international financial institution. Include its purposes, characteristics as an international institution, sources of funds, relation to private capital flows, and its successes and shortcomings.

20. Why has there been widespread interest in the problems of the developing countries since World War II?

    (a) Why are agricultural reforms considered a precondition for industrial development in the developing countries?

    (b) Why have both the United States and the USSR made assistance to these countries a vital part of their foreign economic policies?

ACTIVITIES

1. **Personal letter:** Write an imaginary letter to your parents describing a visit to one of the following places:

   A school conducted by the Peace Corps in Tanzania
   A rice farm in the Philippines growing "miracle rice"
   A typical peasant village in India

   The letter might include references to such things as food eaten, clothing worn, equipment used, family life, wages earned, recreation, etc.

2. **Table:** Construct a table to compare the problems faced by an underdeveloped nation with those faced by the United States to stimulate economic growth.

3. **Map:** On an outline map of the world, indicate in color the areas in which most of the underdeveloped countries of the world are located. Explain why these areas are underdeveloped.

4. **Committee report:** Organize a committee to draw up an economic plan for "Newlandia," a developing nation. Ask each member of the committee to research one of the following ingredients of economic growth: (a) a skilled, healthy, educated labor force; (b) willingness on the part of the people to save and invest their money; (c) entrepreneurship and the spirit of innovation; (d) improved technology, plant, equipment, and resources; (e) a stable government able to promote economic growth; and (f) infrastructure or social capital (schools, hospitals, roads, railroads). After thorough discussion, the committee should draw up a brief report.

5. **Panel discussion:** Organize a panel discussion on barriers to economic growth in underdeveloped lands. To ensure informed discussion, assign each of the following topics to a member of the panel: (a) lack of capital and technical know-how; (b) lack of saving and investment; (c) lack of infrastructure or social capital; (d) unrestrained population growth; (e) under- or overpopulation; (f) unstable government. Ask the moderator of the panel to summarize the discussion.

6. **Graph:** Using information from the international statistics section of a recent *Statistical Abstract of the United States* (or any other handy source), construct bar graphs of the per capita GNP or the per capita income in six developed and six developing countries. Explain the differences.

7. **Oral report:** Ask any of the students who have traveled in a developing nation to talk about their observations of living conditions of the people of the country. Have the class point out the economic concepts that apply to the situation.

8. **Oral reports:** Ask the students to do library research and report to the class on one of the following topics:

   The revolution of rising expectations
   United Nations technical assistance to developing nations
   The World Bank and the developing nations
   The Green Revolution
   The Point Four program

9. **Library visit:** Ask the school librarian to present a talk on pictorial material, periodical literature, and books available on developing countries. Follow the talk by a browsing session. On the following day, a discussion of findings can take place.

10. **Bulletin board display:** Ask a committee to plan a bulletin board display on the developing countries. Include pictures, maps, student-made tables, charts, and cartoons that indicate the problems and aspirations of such countries.

11. **Panel discussion:** Organize a panel discussion on the strengths and weaknesses of the American foreign aid program. For a better discussion, have each panel member research the contributions and the shortcomings of foreign aid in a particular country. Sources: *Readers' Guide to Periodical Literature*, a recent World Bank *Development Report*, or a recent OECD report on *Development Corporation*.

12. **Game:** Play "Development", which simulates relations between the developing nations of the world and two major powers that compete, partly through foreign aid, for the loyalty of the developing countries. (Grade level: 7–12; playing time: 2–4 hours; no. of players: 25–35; Science Research Associates)

13. **Filmstrip:** *Feeding the World's Peoples* discusses the problems posed by population growth, especially in underdeveloped countries. (42 frames; b&w; Current Affairs Films)

14. **Film:** *And Who Should Feed the World?* (Color, 54 min.; McGraw-Hill Films, 1974).

15. **Sound filmstrip:** Show *The Green Revolution*, which takes up the economic promise and the ecological costs of this latest attempt to feed the hungry planet. (New York *Times*)

16. **Committee report:** Ask a committee of students to investigate why food is "the number-one problem of the developing countries." The committee might seek answers to questions such as:
    (a) Can inadequacies in food supplies be traced solely to the vagaries of weather?
    (b) What other difficulties are involved?
    (c) If there are food shortages abroad, why is less than 3 percent of the American work force engaged in growing food?
    (d) According to the Malthusian theory, population tends to grow faster than the food supply, resulting in famine, pestilence, and war. To what extent is this theory true for advanced or industrialized nations? For the developing nations?

17. **Filmstrip:** *The Third World, Part II: Aid and Economics* (1981). Describes the role of the World Bank and International Monetary Fund in assisting developing nations. However, problems of poverty, famine, disease, malnutrition, and illiteracy make the prospect of improvement bleak. (Sound, 11:23 min.; The Associated Press and Prentice-Hall Media, Inc., 150 White Plains Road, Tarrytown, New York 10591)

18. **Problem for analysis:** If the Organization of Petroleum Exporting Countries (OPEC) were to collapse, who would be helped? Who would be hurt? Why?
    (a) How would the end of OPEC affect oil producers both in the United States and in foreign lands?
    (b) How would the end of the oil cartel affect American householders and car owners?
    (c) Would declining oil prices help or hurt developing countries as a whole?
    (d) Why are banks in other countries concerned about the effect of a drop in oil revenues on their loans to oil-exporting nations?

Topic 20

Competing Economic Systems

Economic Facts, Concepts, Principles, or Problems

- Capitalism
- Socialism
- Communism
- Mixed economies
- Market socialism

When Nikita Khruschev, leader of the USSR from 1955 to 1964, threatened to "bury" the United States within the foreseeable future, he was not referring to a military assault, but to economic supremacy. He meant that the Soviet Union would have greater economic growth rates and higher levels of living than the United States. In effect, he implied that the capitalist nations of the world would adopt the **communist economic system.**

So far, the record shows that the United States and other noncommunist countries have little to fear. America still enjoys one of the highest standards of living on earth, and over the long term the rate of **real growth per capita** has been healthy. With approximately 2 percent of the labor force engaged in agriculture, the United States not only produces all the food it needs but has a surplus besides. Meanwhile, in 1980 the Soviet Union had an estimated 20–23 percent of its workers in agriculture and communist China had some 70 percent. The U.S. per capita GNP is somewhat more than double that of the USSR. Per capita use of energy (one good indicator of living standards) in the United States in 1980 was twice that of the Soviet Union. Such consumer goods as eggs, beef, milk, tea, cigarettes, soap, men's suits, and cotton T-shirts are considerably more expensive to a Russian than to an American – that is, Russians must work much longer to be able to buy these goods: from two to ten times longer in March 1982. To earn money for pantyhose, a Russian had to work twenty times longer than an American, while the cheapest aspirin required five minutes of work in the United States but almost 250 minutes in the Soviet Union.[1]

On balance, Americans enjoy a much higher level of living. The often low quality of products and the lack of adequate supplies of many goods and services in the Soviet Union also increase the spread in living levels – Russians spend a lot of time waiting on line, not always with successful results. One reason for the shortages and the poor quality of goods is that while the Soviet Union has less than half as large a per capita GNP as the United States does, it devotes a smaller percentage of its production to consumer goods and a greater percentage to capital investment and to the military.

Under **capitalism** (also called the private enterprise system, the market economy, the market price system, the profit system, and the like) most productive resources are privately owned and controlled. With few exceptions, government does not tell businesses how much to produce, to whom they can sell their output, or what they should charge. Producers hope to cover all costs and have enough left over to earn a profit. Consumers guide economic activity by their willingness (or lack thereof) to buy certain goods and services. If consumers flock to stores to buy home or personal computers, business will soon get the message. Productive resources will be shifted into the output of such computers as profits in that industry rise. If consumer demand for these computers declines, sales will go down, prices will probably fall and profits will be lower or may be replaced by losses – at least for some companies. Resources being used to make computers will be shifted to the production of other things that producers, consumers, or markets abroad may want. There is no overall economic plan. Production and other basic economic decisions generally result from what goes on in the market, which largely registers the intention to buy goods and services at the lowest price possible and

1. The latter difference may seem strange since medical care is considerably more expensive in the United States than in the Soviet Union. Some services such as men's haircuts and movie admissions are also relatively cheaper there than in the United States.

producers trying to sell them at the highest price possible.

In **communism**[2] the important economic decisions are made by a central authority. An arm of government may decide that there should be more tractors and fewer pleasure cars produced. The means of production are owned and are controlled by the government. People will, of course, own their consumer goods, but the government can have a powerful influence on the amount and distribution of those goods. If, for example, private ownership of automobiles is to be discouraged, this can be done by keeping the supply low and the price high, or by outright rationing.

A communist nation will have an **economic plan** for each year or several years. A central planning group from, say, government, the armed forces, and industry, or a central planning agency such as the GOSPLAN of the USSR, sets economic goals and formulates a plan for deciding how much steel, iron ore, electricity, and so on will be needed to meet the goals. Every farm, factory, and mine becomes part of the plan and receives a certain amount of labor, machinery, and raw material. Each enterprise will be expected to produce a minimum amount. It is charged that this leads to inefficiency, because managers may ask for more resources—labor, machinery, materials—than they need in order to fill their output quotas, or may put a low ceiling on their productive capacity in order to be sure to meet the quotas. Supporters of the communist system claim that it is "depression-proof" because the plans guarantee full employment, thus avoiding idle labor, unused plant capacity, and other wastes that occur during recessions in the capitalist countries.

Socialism is more difficult to define. It is sometimes seen as a system falling between the extremes of pure capitalism and pure communism, and as such it can take many forms. Some use the term synonymously with communism or consider communism one form of socialism. In practice, there are, as this is being written, no developed "socialist" countries in existence except those controlled by communist parties (see preceding paragraph and footnote 2). Some countries may practice a certain amount of economic coordination or planning, e.g. Japan and, more spottily, France. In many countries, the government owns one or more large and important industries such as steel, mining, banks, and radio and TV broadcasting, and almost all countries apart from the United States own their own railroads and airlines. In fact, as this was being written, majority control of the French government was held by the Socialist party. The socialist government newly nationalized a number of industries, but it did not establish a thoroughly "socialist" economy. In short, there are many examples of mixed economies (see below) in the noncommunist world, but no completely socialist ones. Socialist parties may at times be in the majority and form governments in some countries, but this does not mean that they will—or can—convert the economies of such countries into outrightly socialist ones by instituting some form of government ownership of almost all the means of production.

Today we often use the term **mixed economy** to describe many economic systems. Although private ownership prevails in the United States and major decisions are still made in the free market, there is a considerable amount of public ownership (subways and local bus lines, Veteran's Administration and other hospitals, beaches and other recreation areas, the Tennessee Valley Authority, for example) and frequent intervention by government in the economic process. Regulatory agencies such as the Food and Drug Administration, the Securities and Exchange Commission, and the Federal Trade Commission have been on the scene for decades. Social security, welfare payments, minimum wage laws, farm subsidies, and government intervention in labor disputes are other examples of how capitalism is modified in the United States. Economic systems are not "pure" in communist nations either. In the Soviet Union a few small businesses are owned by individuals, and people who work on state or collective farms may sell the produce of private plots they cultivate in their spare time at uncontrolled prices. Private farming is important for some crops. It accounted for less than 2 percent of the USSR's total farmland in 1982, but produced 61 percent of the nation's potatoes and more than 50 percent of its fruit.

The term **market socialism** has been used to describe the efforts of the Peoples Republic of China (mainland China), Hungary, and, most of all, Yugoslavia, to combine a hitherto completely planned economy with market forces. Market socialism differs from place to place, but generally implies some or all of the following: a significant amount of decentralized

2. The next several paragraphs deal with communism and socialism as those terms are commonly used today. One of the features of this use is that "communist" countries are controlled by communist parties. Note, however, the tendency of communist countries to call themselves "socialist"—for instance the official name of the Soviet Union is the Union of Soviet *Socialist* Republics. The latter usage harks back to Karl Marx's distinction between socialism and communism. According to him, socialism is an interim stage between a nation's movement from capitalism to communism. For Marx, *one* of the characteristics of the socialist stage was that all people who worked would be paid what the work was worth, as embodied in Marx's phrase "from each according to his *abilities*, to each according to his *labor*." Under communism, Marx said, the rule would be "from each according to his *abilities*, to each according to his *needs*." In Marx's sense, no country has yet reached that stage of communism.

decision-making by both large and small enterprises, competing enterprises which are differentially rewarded on the basis of efficiency and profitability, compensation of workers based on the quantity and quality of their work, worker participation in the management of enterprises, and market determination of certain prices. Government ownership of the chief means of production continues, however, as does a central planning board to determine broad national economic policy. There continues to be substantially more government control under market socialism than in the typical mixed economies of capitalist systems.

Another common way of categorizing economic systems is to refer to them as **traditional, command,** or **market economies.** Such factors as religion, custom, and habit may be the major elements in the making of economic decisions in traditional economies. For example, the production of certain goods and services may be limited to particular groups in the society, and outmoded techniques may be retained because "we've always done it that way." In the modern command economies – i.e., communist economies without an admixture of market socialism – all the major decisions are made by a central authority. The basic economic questions of what to produce, how much, by what means, and for whom are answered by government. The market economy is basically the capitalist system briefly described above.

Political systems are sometimes confused with economic structures. In theory, any kind of political system can coexist with any kind of economic system. A capitalist economy is no guarantee of political democracy, although the two seem to go well together; the United States is a prominent example. It may be that, in practice, a certain amount of economic or even political freedom must be sacrificed as a nation's economy becomes more and more centralized. We have yet to see a long-lasting socialist economy that is combined with political democracy; the combination would seem difficult to achieve – many would even say it is impossible.

The study of comparative economic systems is difficult because it is hard to separate purely economic considerations from political, philosophical, and even religious considerations. "Capitalism," "socialism," and "communism" are emotionally charged words, conjuring up vastly different feelings in different individuals. It is imperative that a set of operating definitions be agreed upon for classroom use. As much as possible, an objective, scientific, unemotional, and analytical approach should be employed. Values can, of course, be considered in the study of comparative economics, but both teacher and student must be sure to differentiate between knowledge and belief, between fact and supposition, and between hard-headed analysis and ideological commitment.

DISCUSSION QUESTIONS

Economic concepts, ideas, etc., that might be brought up in answering the questions are printed in **heavy type** (boldface).

1. Why do both the United States and the USSR carefully watch each other's growth rates?
   Economic growth as basis of economic and political power.
   (a) How do you account for the fact that the American GNP is double that of the USSR?
   Stages of economic development; productivity; profit incentive.
   (b) Why did the Soviet growth *rate* exceed that of the United States during the 1950s and 1960s?
   Reconstruction after World War II; Seven-year plans.
   (c) Account for the recent slowdown in the rate of Soviet economic growth.
   Crop failures; priorities to armaments.

2. Capitalism differs the world over.
   (a) How would you define American capitalism in the 1980s?
   Mixed economy; freedom of enterprise; government regulation; profit incentive.
   (b) Define each of the following institutions or characteristics of capitalism and mention the restrictions that society places on each:
   (1) Freedom of enterprise (2) Competition (3) Free market (4) Private property (5) Profit motive (6) The "invisible hand"
   (c) "A capitalist economy is no guarantee of political democracy, although the two seem to go well together at least in the United States." Explain.

3. How do you account for the fact that the standard of living is higher in the United States than in the USSR?
   Per capita income; productivity; profit motive; economic freedom; role of unions.
   (a) Explain why the American economy is called consumer-oriented.
   (b) Contrast the role of labor unions in the United States with labor unions in the Soviet Union.

4. The term "market socialism" has been used to describe the

efforts of China, Hungary, and Yugoslavia to combine their planned socialist economies with market forces.

(a) How does "market socialism" differ from the "socialism" in the USSR?
Decentralized decision making; competition; incentives.

(b) How do the markets of "market socialism" differ from the markets found in capitalist economies such as that of the United States?
Central planning to determine broad national economic policies and programs; government controls; government ownership of large-scale or basic industries.

5. "The economies of both the United States and the USSR are mixed economies." To what extent is this a true statement?

6. In the USSR, the state uses "the priority principle of resource allocation."

(a) What sectors of the Soviet economy have received high priorities in the past?
Heavy basic industry; armaments; capital goods.

(b) How are resources allocated in the United States?
Price system; markets.

(c) How are prices generally determined in the United States as compared with prices in the Soviet Union?

(d) Are prices most likely to reflect costs of production in the Soviet Union or in the United States? Why?
Market vs. command economy.

7. Critics of our economic system say that major economic decisions in the United States are made by comparatively few individuals. Do you agree or disagree? Why?

(a) Why is concentration of economic power possible?

(b) Can the same criticism be made of other economic systems such as that of the USSR?

8. Although the basic economic problem—allocating scarce resources among competing wants—is the same in both countries, economic planning in the United States differs greatly from planning in the Soviet Union.

(a) How is economic planning carried out in the USSR?

(b) How does economic planning take place in the United States?
Private enterprise; market forces; long-range planning by some firms; modest amount of government planning and cooperation between government and private enterprise.

(c) How does the free competitive market accept or reject the many individual private business plans in the United States?
Supply and demand; profit and loss; market prices; competition; consumer's role.

(d) Why do the Soviet planners argue that their system is "depression-proof"?

9. Why have the Soviet planners emphasized heavy industry and capital goods?
Capital formation and productivity.

(a) How do high rates of capital formation help to speed up industrialization?

(b) How has the generally disappointing performance of Soviet agriculture retarded the Soviet Union's ambition of becoming the leading world economic power?

10. How does socialism differ from capitalism?

(a) Evaluate the major socialist criticisms of the capitalist system.

(b) Why are socialists especially critical of income distribution under capitalism?
Poverty problem; discrimination in employment; unearned income.

11. How does a traditional economy differ from a command economy? How does a market economy differ from both? Which system do you prefer? Why?

12. One of the handicaps of underdeveloped countries has been an insufficient supply of entrepreneurial talent.

(a) What is an entrepreneur? How do entrepreneurs contribute to production?

(b) Do communist countries need entrepreneurs? Explain your answer.
Role of innovators, risk-takers, and organizers—the individual entrepreneur can be eliminated, but the entrepreneurial function cannot.

13. The Bolsheviks nationalized most Russian industry without too much difficulty. Why did the collectivization of agriculture arouse strong resistance?

14. Explain how each of the following increased the role of government in economic life during the twentieth century. (a) U.S. aid to Western Europe after World War II; (b) the Great Depression of the 1930s; (c) urbanization; (d) the commitments of the "welfare state."

15. Compare: (a) the standards of living in the United States and the Soviet Union; (b) the stability of the two economies; (c) the incentives used by the Soviet and American economies. Which do you prefer? Why?

16. Why do we still have "pockets of poverty" in the United States?
Distribution of income; inequalities of opportunity and ability.

17. Discuss some ways in which the American economy changed since the McKinley administration (1897–1901).
Growth of GNP; business concentration; unions; economic role of federal government; fiscal and monetary policies.

ACTIVITIES

1. **Continuum:** Draw a horizontal line, and place the names of the world's leading countries in a sequence from "command economies" at one extreme of the continuum to "free market economies" at the other.

2. **Student reports:** Ask students to do library research and report on one of the following topics related to the Soviet economy:

   Soviet agriculture: collective farms, state farms, and family plots
   Soviet farm problems
   Soviet economic growth
   Incentives in the USSR
   Is the Soviet Union a classless society?

3. **Table of economic systems:** Ask the students to summarize in a three-column table the **strengths and shortcomings** of the following economic systems: American capitalism, Swedish welfare state, and Soviet communism.

4. **Map:** On an outline map of the Soviet Union have students indicate with the use of colored pencils or crayons the principle geographic (or climatic) regions of the country, and to locate and label the chief agricultural, mining, and industrial regions of the USSR.

5. **Bulletin board display:** Appoint a committee of students to prepare a "Yesterday-Today Bulletin Board Display" about either the economy of the United States or the USSR in 1900 and now. Include pictures, maps, pictographs, tables, and charts prepared by the students.

6. **Debate:** Resolved: That consumer sovereignty does not exist to any appreciable degree in the USSR.

7. **Table:** Ask the students to prepare a table comparing the American and Soviet economies in the following respects: use of incentives, method of allocating resources, nature of economic planning, and the roles of management and prices.

8. **Library research:** Ask the students to investigate the changes that have taken place in the Soviet economy since the death of Stalin. Advise them to consult the *Readers' Guide to Periodical Literature* for current articles bearing on this topic.

9. **Graphs:** Use a graph to show changes in the "real" growth rates of GNP in the United States and the Soviet Union between 1970 and the most recent year for which data is available.

10. **Reports on the economies of Western Europe:** Ask the students to do library research and present brief oral reports on a mixed economy in one of the countries of Western Europe.

11. **Game:** "Baldicer." To show the interdependence of the world economy, Baldicer treats such issues as the population explosion, inflation, unequal distribution of resources and technology, and competing styles of economic organization. (Grade level: 8–12; playing time: 2–4 hours; no. of players: 10–20; Baldicer Games)

12. **Student committee:** Appoint a committee of students to investigate the role of each of the following in making and carrying out Russia's five- and seven-year plans:

    Presidium of the Central Committee of the Communist Party
    GOSPLAN
    GOSBANK
    Ministries of the Soviet government
    Regional economic councils
    Plant manager

    Assign individual students to present one- or two-minute reports on each agency listed.

13. **Filmstrip:** *Comparative Economic Systems* (1962) points out how laissez faire and mixed capitalist, communist, fascist, and socialist systems cope with the fundamental economic questions. (35 frames, color; McGraw-Hill)

14. **Filmstrip:** *American Capitalism: A Flexible and Dynamic System* (1962) discusses the theory of capitalism as envisioned by Adam Smith, and the American "mixed economy" as it exists today. (Economics for our Times Series; McGraw-Hill)

15. **Position paper:** Write a position paper on the case for or against increasing the amount of foreign trade between the USSR and the United States.

16. **Film:** *Communism* is a U.S. army film that explains the history, structure, and political nature of communism. (31 min.; Du Art Film Laboratories)

17. **Imaginary diary:** Write an entry in an imaginary diary on one of the following topics:

    A shopping trip in Moscow
    A day in a Soviet classroom
    A day on a collective farm
    A visit to a culture park

    Use a library to obtain information on the topic of your choice.

18. **Filmstrip:** *Communism and Economics* (1963) compares a communist-oriented economic system with an American-style market-oriented economy. (42 frames, LP record, color; Society of Visual Education, Inc.)

19. **Problem for analysis:** The Council of Ministers in the USSR has decided that agricultural production must be increased as a step preliminary to increasing total national production. As a member of the State Planning Commit-

tee (GOSPLAN), you are assigned to plan for these increases. To do so you must be able to answer the following questions:

(a) How can the Council of Ministers justify increased emphasis on agriculture as a means of increasing total national production?

(b) Which industries would need larger allocations of workers and resources in order to help agricultural output to increase?

(c) What difficulties would be faced in planning shifts of workers and resources in an economy where there is relatively full employment?

Now return to your role as an American student.

(d) Suppose the United States needed to increase its agricultural output. How would the various industries that are related to agriculture know that they will have to produce more in order to supply more resources to farmers?

(e) Is the chance of making errors under the Soviet Union's system of central planning less than, as great as, or greater than it is under the American system of individual planning? Why?

Topic 21

Domestic Problems Today

Economic Facts, Concepts, Principles, or Problems

- Unemployment
- The farmer
- Consumer protection
- Distressed areas
- Poverty and discrimination
- Environment
- Urban problems
- Energy
- Crime

THROUGHOUT THIS GUIDE we have emphasized economic problems and have suggested ways of relating historical events to all types of current questions, for it is our belief that the major reason for studying history is to help us better to understand the issues of today. The teacher who has been fortunate enough to cover the whole range of American history right down to the present and who still has time, can do much more than simply review previous lessons. Current problems that have only been touched upon can now be examined in greater depth, and others can be introduced. Remember that today's events are *tomorrow's* history.

A good daily newspaper will contain many items that have something to do with the kinds of economic issues relevant to a course in American history. Recently, we selected at random a daily newspaper published in a large midwestern city and found 46 items dealing with economic topics. About one-third of these were in the first section of the paper, not in the financial section. A week later we examined another issue of this newspaper and found 82 items dealing with economics, 31 of which were in the first section! Among the problems dealt with were recession, energy, youth unemployment, labor disputes, taxation, rising prices, a water shortage, the cost of education and welfare, a housing monopoly, the cost of vandalism in the schools, aid to farmers, wage rates, the costs of pollution, poverty, economic discrimination against women, urban planning, and economic growth. These problems were current in the early 1980s, and it is probable that many will be receiving public attention for years to come. Other issues will certainly arise, and the student who has been equipped with the basic "tool kit" of economics, history, and other social sciences will be prepared to understand them as well.

Pollution was touched upon in Topic 12, but merits much more attention. The class should first clearly state and define the problem. What are major sources of pollution? What are the costs of pollution? In some cases, fairly precise figures for the costs of pollution are available. For instance, in the Ohio River basin, mine drainage caused $1.143 million worth of damage to steamboats and barges in one year. In New York City in 1970, it cost approximately $3.6 million to dispose of abandoned cars, while Philadelphia spent about $2 million more than its regular garbage and refuse collection costs to clean up littered streets.

But many pollution costs are quite difficult or even impossible to measure. Some may be in terms of human illness and death. Some may be in terms of damaged or lost bounties of nature, such as when a lake or stream becomes polluted or when forest land is destroyed for a trivial reason. Some may be in terms of lost recreational facilities when an area becomes overbuilt. These are real costs to society, but frequently at best only an approximate cost can be placed on the loss.[1]

Who bears the costs of pollution? To a great extent these are **social costs** or **external costs.** That is, they are costs borne by people other than the producers or consumers whose economic activities bring on such costs. A firm ordinarily passes its costs of producing its product on to a consumer. Part of the costs of say, a car is attributable to the wages of the workers who built it, the value of the raw materials used, the cost of the buildings and machinery employed in manufacturing the vehicle, the salaries of management, the cost of the electricity

1. For example, in the early 1980s it was estimated that air pollution cost more than $20 billion a year in damage to human health, plants, materials and property values. It was not possible to ascertain how much *more* than $20 billion the figure may run to.

and fuel used up, and so on. These are **internal costs,** paid directly by the firm and indirectly by the buyer of the firm's output. If, in the process of making cars, the manufacturer pours harmful wastes into a nearby stream and smoke containing harmful chemicals into the air, some of the costs of producing the vehicles are borne by others—people who neither buy the cars nor are the firm's employees, owners, managers, or bankers. The taxpayers-at-large must pay for a public water purification plant to clean the polluted stream, and the building owners who must paint their homes more often because of smoke damage also pay some of the costs of production. They are paying the social or external costs. Accordingly, one of the proposals for dealing with pollution is that the costs of pollution be *internalized*—that is, borne by the producers and consumers who benefit from it or are responsible for it. Two common forms of internalization are to install equipment or processes that will prevent the pollution or to pay charges equivalent to the community's costs for cleaning up the pollution.

Proposed pollution "cures" must be examined from an economic point of view. What will each proposal cost? Who will ultimately bear the cost? How will resources be reallocated? In 1972, a chemical plant in Saltville, Virginia, was closed down because it had been polluting the water and the air. Some of the cost of halting this pollution was borne by the plant's owners; they would no longer derive an income from its operation. The plant's 900 workers (in a town of only 2,500 persons) lost their jobs, so they too incurred some of the cost. The area's school system suffered because the plant was dropped from the property tax rolls with the result that 49 teachers plus other employees were dropped from the school system. (The teacher-pupil ratio rose, the school nursing service ceased, and athletic programs were curtailed.) The decision to close the plant was obviously very costly to the local area.

However, the long-run effects of combating pollution can be economically beneficial. Pollution control has become in itself an important new industry and a source of jobs. Because of the demand for controls, many firms that create pollution problems are seeking new and better production methods. **Recycling** (reclaiming waste products for reuse or for new uses) offsets some of the costs of pollution control. For example, bottlers can wash and refill glass containers, some of the waste materials from meat-packing plants can be made into fertilizer, and certain distillery wastes can be dried and used for cattle feed.

Cost-benefit analysis is needed when antipollution measures are contemplated. For instance, it obviously didn't pay one oil company to recover sulphur and sulphuric acid from the wastes it generated unless it raised its prices because it only got back ten cents for every dollar it expended. However, a large chemical firm that had been polluting the Mississippi River spent $750,000 for a recycling system, cut pollution by 90 percent, and saved the firm $250,000 a year in material and water costs. It is probable that the long-run net effect of many or even most pollution controls will be good for the economy, but it is also important to realize that there will be short-run costs and dislocations that impose higher costs on some firms or people than on others.

As already alluded to, among the various schemes for pollution control are **effluent** or **emission fees,** taxes, and direct government control. Fees act as negative incentives. Under a fee system anyone discharging a damaging form of smoke into the air or sewage into water pays charges based on the emission of smoke per hour or the gallons of sewage effluent. These charges induce people or firms to keep pollutants below specified levels. A "disposal tax" on materials such as discarded automobiles and used packaging can help pay the cost of disposing of such items. Governments can pass antipollution laws and assess fines and even impose imprisonment on violators. (In 1982, the president of an oil refining firm in Pennsylvania was fined $750,000 and sentenced to a year in jail for allowing the firm's production facilities to dump toxic waste in violation of a clean-water regulation.)

Students might make a study of the progress that has been made in cleaning up the environment. For example, in 1983 it was reported that the air in twenty major cities was cleaner than it had been ten years earlier. Some waters once considered "dead" (such as Lake Erie) had started to show significant improvement. Yet, more than a hundred counties in thirty-one states were unable to meet clean-air standards. Much more, obviously, remained to be done.

In any event, everyone will be forced to help pay to the bill. Few Americans willingly give up their cars, but pay higher prices for them because of the pollution control systems they contain. The higher prices no doubt cause car sales to be somewhat lower than otherwise; consequently somewhat fewer auto workers are employed, some gasoline stations and auto accessory shops go out of business, and so on. Thus, the **allocation effects** of an apparently simple pollution control action can become extremely complex—far more complex than we can possibly discuss here in all their ramifications.

The auto instance described above—less pollution at the cost of fewer auto sales, etc.—illustrates how a **trade-off** comes about because of a conflict of goals. Another example is afforded by a community that imposed drastic new requirements for sewage treatment facilities in houses, thereby raising the cost of new homes by 30 percent. This requirement slowed and even halted some housing construction—i.e., new homes were "traded off" for cleaner water. Suggesting that attention be paid to allocation effects does not necessarily

imply that controls are unwise, but simply that people should try to understand the possible economic impact of proposals to decrease or eliminate pollution.[2]

ENERGY WILL PRESENT problems in the future, even though there have been cracks in OPEC's power. The effects of the oil "supply shocks" of the 1970s are worthy of study and analysis. What were the immediate effects on the American economy? What are the long-run effects? How might we cope with similar crises in the future?[3]

UNEMPLOYMENT AND POVERTY appear to be persistent problems that merit constant study. The recession of 1981–82 brought the highest unemployment rate since the Great Depression, but for many people unemployment is a problem even in times of general prosperity. And some groups are hit harder than others. Since many high school students are about to enter the labor force, the availability of jobs ought to be of serious concern to them.

Students might profit by making studies of the occupations in which they are interested. What is the demand and supply situation for workers in that field? What sorts of education and training are needed? How is the industry affected by the business cycle? Will jobs be secure during recessions, or are there likely to be widespread layoffs? What does the future portend for people in this field?[4]

Poverty, welfare, and discrimination are closely related issues. In 1972 some 24.5 million Americans, 11.9 percent of the population, were living in poverty (as defined by the U.S. government). Ten years later the number was more than 30 million—over 13 percent of the population. Federal aid to the poor grew from $3.3 billion in 1965 to in excess of $52 billion in 1982. In spite of efforts to end discrimination, black people appear to be carrying the heaviest burden. The black unemployment rate between 1973 and 1983 has been about double that of whites. And median black family income as a share of white family income dropped from 61 percent in 1970 to 56 percent in 1981. While 11.1 percent of whites were classified as being poor in late 1982, 34.2 percent of black Americans and 26.5 percent of Hispanic Americans were so classified.

In the early 1980s, after years of highly publicized affirmative action programs, the median income of women workers remained well below that of men—in a decade their median income rose from 59.2 percent of the income of men to 60.2 percent—a gain of only one percentage point. Even women with educational and work backgrounds comparable to those of their male counterparts have not always fared as well. A study published in 1983 showed that women with MBA degrees who started earning the same salaries as men quickly began to fall behind. After ten years on the job, their average salaries were only 81 percent of those of the men with whom they had started.[5]

WHAT ARE THE causes of poverty and discrimination? Who is affected? The immediate victims of discrimination are not the only ones who suffer. If people are "locked into" low-level occupations when they are capable of doing more sophisticated work, they are not producing as much as they could be. Thus, the whole economy suffers because the nation's total output is below its real potential. Economists assert that our GNP would be billions of dollars higher than it is if not for discrimination.

What can be done to end poverty and discrimination? How well have past efforts (such as President Johnson's "War on Poverty") worked? A good case study would be Appalachia. Between 1965 and 1982 the Appalachian Regional Commission spent nearly $5 billion. The percentage of the area's people living in poverty was cut in half, over 1,700 miles of road were built, the infant mortality rate plunged, and the population outflow was reversed. Yet, the area remains depressed, with a large gap between its level of living and the level that is considered to be the norm in the United States. Should further efforts be made in Appalachia? If so, ought they to differ from the earlier programs? Why was the area "depressed" in the first place? Other aspects of poverty that might be analyzed are the plight of the small farmer, problems of migrant

2. In the 1970s there was a heated controversy over the trade-off between finding new sources of energy and maintaining the state of the environment. One example was the extent to which Americans were willing to risk oil spills while seeking off-shore oil.
3. A great deal of material is available for teaching about the energy problem. For example, see *The Economics of Energy: A Teaching Kit (Grades 7-12)* (New York: Joint Council on Economic Education, 1983). By 1983, over 10,000 schools were involved in the National Energy Awareness Program. Check to see if your school is involved.
4. See Sar A. Levitan and Robert Taggart, *The Economics of Youth Unemployment*, with teaching suggestions by Frances Watkins (New York: Joint Council on Economic Education, 1973). An accompanying filmstrip is also available. Another Joint Council filmstrip on this subject is *Youth Unemployment: Causes and Consequences* (1979). For research on youth unemployment see *The Youth Labor Market Problem: Its Nature, Causes, and Consequences*, edited by Richard B. Freeman and David A. Wise (Chicago: University of Chicago Press, 1982).
5. This study was reported in the New York *Times*, February 20, 1983, Section F, p. 27.

workers, conditions of residents of urban slums, and the great disparities in per capita income among the states.

WE ARE ALL consumers, and there will always be **consumer problems** needing study and analysis. Do consumers' actions in the marketplace really guide and direct the economy, or are consumers "economic infants" who need more government protection? In what way does consumer behavior affect the business cycle? How important is consumer spending in keeping the economy moving upward? To what extent is consumer credit beneficial? To what extent is it a problem? The teenage consumer has taken on greater importance because of increased spending by this age bracket. How is the economy affected by the "teenage market"?

By 1983, 73 percent of all Americans were residing in urban areas (cities and suburbs). Cities are confronted with difficult problems that are bound to affect everyone in one way or another. High population densities (such as Manhattan's 77,000 per square mile) often co-exist with steep crime rates, overcrowded housing, high disease rates, and serious traffic problems. Another major issue faced by cities is the loss of industries (which also means loss of jobs and loss of tax payments) as firms move to the suburbs or other areas of the country. Lack of space and traffic congestion are two of the reasons why industries move out of central cities. Business firms also cite antiquated facilities, inadequate consumer transportation and other public services, high labor costs, high taxes, high rents, rising crime rates, the growth of slums, and the exodus of middle-income people.

Here is what happened in Chicago as a result of factors such as those mentioned above. Between 1970 and 1980 manufacturing employment dropped from 440,000 to 330,000, while employment in the Chicago suburbs rose from 460,000 to 530,000. White-collar employment also declined in the central city but soared in the suburbs.

Many cities find that when middle-income people—those who are relatively skilled, who can pay relatively high taxes, and who can bear the costs of many services themselves—leave, they are replaced by poor people who have few marketable skills, low or no taxable incomes, and a great need for public services. (For example, during one five-year period Cleveland lost 90,000 middle-income persons to the suburbs and gained 25,000 poor.) "Erosion of the tax base" arising from the departure of middle-income people, coupled with an influx of the poor, puts a great strain on a city's budget.

Many cities need more police, firefighters, teachers, social workers, and other producers of services. But the nature of many service jobs makes it very difficult to raise the productivity (output) of the workers who hold them.[6] At the same time there is pressure to raise salaries or wages in line with the increases given workers elsewhere, such as in manufacturing, in which productivity tends to rise along with wage increases. Thus, much of the rise in a city wage bill is not offset by higher output per workers, and so wage costs may go up faster than warranted by that city's revenues. Often the result is that the city lays off workers or hires fewer than it otherwise might.

The cost of running most cities has risen faster than their revenues, and this has led many mayors to ask for more aid from the federal government. The recession of 1981–82 was particularly hard on cities. Their outlays for aid to the poor soared, while their revenues from various taxes dropped. In 1982 federal grants-in-aid to states and localities were cut by $6.6 billion from the 1981 level, while, at the same time, citizens balked at paying higher local taxes to make up the difference. There were cities that had to face the possibility of bankruptcy. Meanwhile, in some cities, new types of private support from foundations and businesses appeared. Whereas private funding was formerly mostly given to cultural institutions such as museums and symphony orchestras, by the early 1980s some funds began to be devoted to buying fire engines, rehabilitating housing, "adopting" parks, auditing city departments, and many other types of assistance.

CRIME AND ITS costs to individuals, families, and society as a whole is a subject that should interest teenagers greatly. In analyzing the costs of crime, one should consider not only the obvious factors such as the salaries of judges and law enforcement officers, the cost of building and operating prisons and courts, the value of property that is stolen and destroyed, and the price of burglar alarms. One should also consider that crime increases prices because many businesses must pay for crime insurance, must replace items taken by shoplifters, and may need to hire guards. There are other less tangible costs, such as the fear of walking the streets at night. **Cost-benefit analysis** can be used to evaluate various proposals for dealing with crime or reducing it: will a given proposal's benefits exceed its costs?[7]

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6. This is not to imply that productivity increases in the service occupations are impossible. Some service workers have substantially increased their output, thanks to such influences as better training and equipment (e.g. computers).
7. *Analyzing Crime and Crime Control: A Resource Guide*, Economics–Political Science Series (New York: Joint Council on Economic Education, 1981). For a text on the subject, see Daryl A. Hellman's *The Economics of Crime* (New York: St. Martin's Press, 1980). For an excellent collection of readings see Ralph Andreano and John J. Siegfried, eds., *The Economics of Crime* (New York: Wiley, 1980).

And so it goes! Nearly every problem of modern life has an economic dimension. The plight of the aged, the incredibly high cost of medical care, the economic crises of many colleges, inadequate housing, airport delays, highway needs, the fiscal problems of numerous public school systems, the energy crisis, and scores of other issues call for economic analysis. In a system in which the average citizen has a voice in public affairs, either through direct participation in political and economic decision-making or indirectly through elected representatives, it is imperative that everyone have an understanding of the basic concepts that relate to the problems of contemporary living and governance.

DISCUSSION QUESTIONS

Economic concepts, ideas, etc., that might be brought up in answering the questions are printed in **heavy type** (boldface).

1. Unless action is taken quickly, "Spaceship Earth" may become a dead planet. Why have people all over the world become concerned about environmental problems?
   Costs of pollution; depletion of natural resources; population explosion.

2. What are the major sources of pollution in the United States?

   (a) Why is pollution called a social or external cost?
   Internal and external costs of production; variable and fixed costs.

   (b) How do external costs differ from internal costs?

3. Why is the natural environment an important ingredient in "the quality of life"?

4. It is important to understand both the immediate and long-run effects of proposals to control pollution.

   (a) Discuss the immediate effects of pollution controls on: (1) jobs in an industry cited for excess pollution; (2) profits; (3) taxes; (4) competition from abroad.

   (b) In the long run, does pollution-control legislation create or destroy jobs? Explain.

5. Discuss how cost-benefit analysis can be employed by a municipality using a garbage incinerator to generate electricity for its parks and public buildings.

6. Show how effluent or emission fees, taxes, and direct government controls can act as "negative incentives."

7. The fight for a safe environment in the United States has raised many fundamental questions.

   (a) To what extent are you willing to pay higher costs or face controls on the unrestricted use of the material goods (such as cars) that provide us with our high living standards but often at the expense of the environment?

   (b) Are we willing to pay the costs (in money and living standards) that an unpolluted environment would require?
   "Trade-offs"; real costs; cost-benefit analysis.

8. Finding that there seems to be a relationship between GNP growth and increases in pollution, some environmentalists insist that we have a "zero growth rate." Many economists, however, argue that a high rate of growth would help to provide us with the resources needed to combat pollution and other current problems. Discuss. Which side do you favor? Why?

9. Unemployment continued to be a persistent economic problem in the early 1980s.

   (a) Which age and racial (or ethnic) groups have suffered most from unemployment in this decade? Why?
   Frictional, seasonal, cyclical and technological unemployment; education and training; discrimination.

   (b) How does the federal government's fiscal policy tend to affect the rate of unemployment?
   Anti-inflation actions may bring higher unemployment rates; effects of taxation; government spending; federal budget.

   (c) What would you do about the hard-core unemployed?
   Job Corps; retraining; public works projects.

10. Why has the problem of economic insecurity attracted great attention in the twentieth century?

    (a) How are poverty, discrimination, poor education, and welfare interrelated?

    (b) Why is economic insecurity more serious in an urban society?

    (c) How would you evaluate the current proposals of the major political parties (and others) for ending the problem of economic insecurity?
    Examine proposals such as a guaranteed income, negative income tax, changes in Social Security, medicare, medicaid, public works projects, job training, and whatever else may be current.

11. What changes do you foresee in regard to each of the following in the years ahead? (a) Women in the labor force; (b) the economic role of teenagers; (c) the influence of rural farm areas on national economic policies; (d) the

length of the workweek; (e) the role of education. Explain your answers.

12. In recent years economists have been discussing "the economics of crime."

    (a) Show how crime affects: (1) the profits of businesses; (2) the prices consumers pay; (3) the quality of life.

    (b) What is the relationship between the use of hard drugs and crime?

    (c) If you were the president of the United States, how would you deal with the problem of crime?
    Real costs of crime; cost-benefit analysis applied to anticrime measures.

13. The problems of the poor in rural areas have not been so well publicized as the problems of the urban poor in recent years.

    (a) Has rural poverty increased or decreased?

    (b) How did many black southern tenant-farmers and sharecroppers try to escape the vicious circle of poverty? To what extent did they succeed?

    (c) Is the small family farm doomed? Defend your answer.
    Economics of agriculture; farm mechanization; overhead costs; markets for farm output; elasticity of demand for farm output; supply problems; competition.

14. What is meant by "consumerism"?

    (a) Is government providing enough, too much, or too little protection for the consumer?

    (b) What have been some of the accomplishments of the consumer protection movement?

    (c) What consumer problems need further investigation and possible action?

15. What steps can be taken to prevent today's urban problems from becoming insolvable?
    Financial problems of cities; erosion of tax base; traffic congestion and its costs; rising costs in cities; exodus of businesses and the middle class; housing.

16. Some say that the key to ameliorating or eliminating problems in the "inner city" are jobs, housing, and education.

    (a) To which of these would you assign the highest priority? Why?

    (b) If you were president, what priorities would you assign to the Secretary of Housing and Urban Development?

17. The tidal wave of progress often leaves distressed areas in its wake.

    (a) Why is Appalachia considered a distressed area?

    (b) What steps can government, business, and the individual take to alleviate the problem of distressed areas?
    Regional economic development; investment; role of education.

18. What are the economic problems confronting old people? What can be done to help the elderly?
    Inflation; low-cost housing; medical costs; Social Security; pension plans.

19. How has Mexico's "population explosion" affected the American economy?

    (a) To what extent has illegal Mexican immigration deprived U.S. citizens of jobs?

    (b) How has Mexican immigration affected expenditures for schools? relief? welfare? Explain your answers.

20. Discuss the harmful consequences of unrestrained population growth on the global economy. Would zero population growth be an asset or a liability to the future of humankind?

21. Fifty years ago, the central business district of a city was the hub of the transportation system. Trolleys, railroads, and subways brought workers and shoppers to the heart of the city.

    (a) How has the growth in the number of automobiles and trucks affected the central business district?
    Traffic congestion; dispersal of industry; dispersal of housing; suburban shopping malls.

    (b) Why is public transportation inadequate in many cities today?
    Need of modernization; decline in number of riders.

    (c) How has the dispersal of industry to the suburbs affected the urban poor?
    Unemployment; the ghetto; declining job opportunities.

22. Why is it difficult to ascertain the amount of poverty in the United States?
    Invisible poor; as people become more affluent, living standards move upward (rising expectations and entitlements.)

    (a) How is poverty measured in the United States?
    Poverty line adjusted for family size and cost of living.

    (b) Do attitudes of the nonpoor inhibit efforts to end poverty?
    Poverty considered evidence of personal failure and character defects; deserving vs. undeserving poor.

    (c) Why are people poor?
    Aged; disabled; households headed by women with children.

    (d) Why has the educational system in some cases been unable to help young people to escape from the same sort of poverty as their parents?
    Poor schools; inappropriate curriculum; discrimination.

23. Why have so many middle-class families moved to the suburbs since the end of World War II?
Deterioration of neighborhoods; search for the good life; larger living quarters; more outdoor space; better schools; less crime; better jobs.

(a) How did the flight of the middle class affect
(1) the tax base of the cities?
Move of industry and the affluent to suburbs.

(2) city expenditures?
Welfare; medicaid; increased city services; schools.

(b) What is the purpose of urban renewal?
Increase tax base; elimination of slums.

(c) Why has the public housing program been a "mixed success"?
Segregation of poor; vandalism; crime.

ACTIVITIES

1. **Oral reports on poverty:** Assign oral reports on various aspects of the problem of poverty. For example:
(a) The persistence of "pockets of poverty" despite rising national income.
(b) Jobs—the solution to most ghetto problems.
(c) The economic effects of racial discrimination.
(d) The effects on earnings of a low level of schooling and of a lack of training and special skills.

2. **Position paper:** Write a position paper on a socioeconomic topic of "unfinished domestic business," such as sexism in employment, pay, and promotional opportunities; racial discrimination in housing, business, the professions; distressed areas; welfare reform; etc.

3. **Debate:** Resolved: That the office of Protector and Defender of the Consumer, with powers similar to those of the Attorney General, be established.

4. **Oral reports on consumerism:** Assign oral reports on various aspects of consumerism. For example:
Ralph Nader: Crusader
Better buyership
Organic foods
Safe cars
Recycling of wastes

5. **Forum:** Plan a forum on the women's movement for rights. Have several speakers. One might discuss the history of the women's rights movement; another the current demands of the movement; and still another a forecast of changes predicted by the year 2000. Class discussion should follow.

6. **Community survey on consumerism:** Ask the students to investigate consumerism in their own communities by conducting a survey and by interviews. Evidence might include the existence of cooperative stores, cooperative apartments, boycotts of stores, activities of civic and women's clubs, etc.

7. **Written reports:** Ask the students to report on the activities of Ralph Nader. A good source of information is the series of paperbacks published as *Ralph Nader Study Group Reports.*

8. **Book report:** Many interesting books have been published on environmental problems. Ask each student to select one book on ecology published within the past ten years and report on its thesis and its recommendations.

9. **Environmental hall of fame:** Appoint a committee of students to nominate members for an environmental hall of fame. Ask each committee member to sponsor a candidate. Candidates might include Theodore Roosevelt, Franklin D. Roosevelt, Gifford Pinchot, Rachel Carson, Ralph Nader.

10. **Debates:** Resolved: That the American economy is better prepared to combat the threat of depression today than it was in 1929.
Resolved: That high taxes are an indication of the wastefulness of government.

11. **Filmstrip:** Show *The Changing Role of Women,* which depicts the link between the suffragist movement and the current movement for women's rights. (Sound; Associated Press Special Reports)

12. **Filmstrips:** Show selected reels of *The 1960s* and *The 1970s* (American Decades Series), which survey political and economic patterns, science and technology, the struggle for human rights, and cultural developments during the period under study. (Sound, color; International Film Bureau)

13. **Community economic problems:** Ask the students to read the local newspaper for a prescribed two-week period and report on the current economic concerns of the community as reflected in the newspaper. Problems of the state can also be handled in this manner.

14. **Graphs:** Ask the students to draw bar graphs comparing the number of unemployed white male and female teenagers with the number of unemployed black male and female teenagers. Compare the teenage rates with the current unemployment rates for all ages. Use the publications of the Bureau of Labor Statistics as sources.

15. **Game:** Play "Environmental Game." It simulates negotiating sessions involving some of the problems of coping

with air, water, land, and visual pollution. (Grade level: 7–12; playing time: 2 hours; no. of players: 4–32; Simulation System Program)

16. **Filmstrip:** *Stagnant Economy: Challenges for the 80s* (1981). Color, 2 filmstrips, 2 cassettes, guide; Associated Press Special Reports; Associated Press and Prentice-Hall Media.

17. **Filmstrip:** *Social Security: Is the System Secure?* (1982). Deals with the problems of the social security system in the early 1980s, and ways to solve these problems. (Filmstrip, cassette; New York Times)

18. **Sound filmstrip:** Show *Consumerism: The Dangers of Affluence* to introduce the students to this movement. (Associated Press Special Reports)

19. **Panel discussion:** Plan a panel discussion on the growth of consumerism during the twentieth century. Assign to various speakers topics such as the Great Depression of the 1930s, the New Deal and the consumer, President John F. Kennedy's program, Ralph Nader's investigations, and the effects of inflation since 1973. The moderator might summarize the discussion and the question period by pointing out recent trends.

20. **Film:** *Can the Earth Provide?* (1960), dramatically portrays the race between the earth's burgeoning population and productivity. (30 min.; McGraw-Hill)

21. **Field trip:** Take your students on a field trip to a slum area if one exists in your town or city. What are the main characteristics of a slum or ghetto? Why did a flight of families and business firms to the suburbs occur? What families and kinds of firms remained in the central city? What can be done to change living conditions and provide opportunities for youth living in the slum?

22. **Committee report:** Ask a committee of students to explore alternative energy sources such as the sun, wind, oceans, the atom, methane gas, and the like. Ask the committee to research the subject at the library and then draw up a list of the advantages and shortcomings of each alternate energy source. Was the committee able to agree on a single best energy source of the future? If not, why not?

23. **Filmstrip:** *Welfare: Who Benefits? Who Pays?* (1980). Deals with the issue of poverty in the United States. (Color, cassette; New York Times)

24. **Film:** *The Cities: To Build the Future* (1968), develops a systematic approach to urban planning and renewal. (Color, sound, 60 min.; BFA Educational Media Division, CBS News)

25. **Film:** *One Way to Better Cities* (1969) attributes urban decay and suburban sprawl to the property tax. (Color, sound; Association-Sterling Films)

26. **Oral reports:** Ask selected students to give short oral reports on the following questions related to the role of consumers in the 1980s:

    Is the consumer of the 1980s still an economic infant requiring government protection?
    How does the consumer affect the business cycle?
    Is consumer credit a boon or a problem for the American economy?
    How is the economy affected by the teenage market?
    What would be the economic and social repercussions of a four-day, 32-hour work week?

27. **Filmstrip:** *Energy: The Challenge is Now* (1981). A program of eight sound filmstrips, average length 8 minutes; United Learning, P.O. Box 718, 633 West Howard Street, Niles, IL 60648. Includes, among others, *Energy and World Affairs* (OPEC), *Energy and Environment, Solar Power: The Future Is Now, Nuclear Power: The Promise and the Peril.*

28. **Filmstrip:** *Inflation in the Eighties* (1981). Part I deals with demand and cost-spiral inflation, the effects of government spending, and the actions of the Federal Reserve Board. Part II offers concrete suggestions for reducing inflation on a personal level. (Color, cassette, guide; Multi-Media)

29. **Filmstrip:** *The New Immigrants.* Part I (13 min.) focuses on immigration from colonial times to World War II. Part II (11 min.) focuses on immigration to the United States since World War II, mainly from Latin America and Asia. (Sound; Associated Press and Prentice-Hall Media, Inc.)

30. **Individual report:** A student may wish to investigate the post-World War II technological revolution in the United States. The revolution depended on a massive application of energy to production and a burst of inventiveness in the fields of electronics and communications.
    (a) What human and organizational problems does the technological revolution create?
    (b) How does the technological revolution affect productivity? living standards?
    (c) Mention examples of recent technological advances in electronics.

31. **Committee report:** Create a committee of students to investigate the activities of women who fought discrimination against their sex in the twentieth century. The committee may study and report on protective labor legislation for women workers; the activities of the Women's Bureau of the Department of Labor; the fight for equal pay for equal work; the struggle of feminists for women's suffrage and the Equal Rights Amendment; and the increasing percentage of married women working outside the home and the effects of this on the stability of the family and on family income.

32. **Problem for analysis:** Using a decision-making model analyze the following situation: Assume you are a

member of Congress at a time when it has been asked to appropriate $50 billion for a special missile program and $20 billion for new social services. Because of a business recession and a defense buildup, it is not possible to do both in the amounts asked.

(a) Define the problem.
(b) List alternative ways of dealing with it.
(c) Decide what criteria to use in evaluating the alternatives.
(d) Select two alternatives and examine them thoroughly in terms of the criteria selected.
(e) Make a choice. (If several groups of students work at the problem and report the results, the entire class may then review all the alternatives and criteria and discuss a possible choice.

Bibliography

GENERAL WORKS ON BASIC ECONOMICS

A teacher should have a personal copy of a good detailed textbook on the principles of economics. A recent edition of Paul Samuelson's *Economics* or Campbell McConnell's *Economics* (both published by McGraw-Hill) would be very useful as a reference for every topic taught in the conventional college course in introductory economics. Many similar texts are available from a variety of publishers. In recent years several shorter comprehensive texts have been published. These might prove suitable for daily classroom use by the teacher and perhaps by brighter students as well. A list of some of these relatively short works follows.

Bonello, Frank J., and Thomas R. Swartz, eds., *Alternative Directions in Economic Policy*. Notre Dame, Ind.: Notre Dame University press, 1978. (Not a basic text, but good for dealing with economic policy issues.)

Bowden, Elbert V., *Economic Evolution: Principles, Issues, and Ideas – Through the Looking Glass of Time*. Cincinnati: South-Western, 1981. (The evolution of economic thought.)

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Cochran, Thomas C., *200 Years of American Business*. New York: Delta/Dell, 1978.

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Harcourt Brace Jovanovich, 1977. (This is a more detailed and higher level version of *The Development of American Economic Life.*)

Hughes, Jonathan R., *American Economic History.* Glenview, Ill.. Scott, Foresman, 1983.

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REFERENCE WORKS

Teachers should have on hand a few works that will provide definitions of key terms and concepts and statistical data, both past and present. Some good recent information can be obtained free of charge.

Write to the Federal Reserve Bank of St. Louis, P.O. Box 442, St. Louis, MO 63166, and ask to be placed on the mailing list to receive such periodicals as *National Economic Trends* and *Monetary Trends*. The former provides information on recent trends in such matters as employment, the unemployment rate, prices, industrial production, personal income, retail sales, Gross National Product, productivity, and labor costs. The latter shows recent trends in the nation's money supply, bank loans, interest rates, the federal debt, and the federal budget.

Write to the Federal Reserve Bank of New York, 33 Liberty Street, New York, NY 10045 (Public Information Department) for a free list of their excellent publications, many of which are designed especially for use in high school classes. Other Federal Reserve Banks also provide free periodicals and publications.

Such weekly magazines as *Business Week*, *Newsweek*, *Time*, and *U.S. News & World Report*, although not free, contain good economics coverage. The latter magazine, in particular, usually includes simple, well-presented charts and tables on economic matters.

Check with your local library or a nearby college library for other journals that contain recent economic statistics. The following, also, are useful sources of information.

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